

Village Bank & Trust Financial Corp.
Form PRE 14A
March 24, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid:
- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

PRELIMINARY PROXY – SUBJECT TO COMPLETION

Dear Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of Village Bank and Trust Financial Corp. to be held on May 20, 2014 at 10:00 a.m. Eastern Daylight Time at the main office of Village Bank located at Watkins Centre, 15521 Midlothian Turnpike, Midlothian, Virginia. At the meeting, you will be asked to:

- elect five directors for a term of three years each;
- approve, in an advisory (non-binding) vote, the executive compensation disclosed in this Proxy Statement;
- approve an amendment to Village Bank and Trust Financial Corp.'s Articles of Incorporation to authorize its board of directors to effect a reverse stock split of its common stock;
- approve an amendment to the Village Bank and Trust Financial Corp. Incentive Plan;
- ratify the appointment of BDO USA, LLP, as Village Bank and Trust Financial Corp.'s independent registered public accounting firm for the year ending December 31, 2014; and
- transact such other business as may properly come before the Annual Meeting or any adjournments or postponement thereof.

Enclosed with this letter is a formal notice of the Annual Meeting, a Proxy Statement and a proxy card. Whether or not you plan to attend in person, it is important that your shares be represented at the Annual Meeting. Please complete, sign, date and return promptly the proxy card that is enclosed in this mailing. If you later decide to attend the Annual Meeting and vote in person, or if you wish to revoke your proxy for any reason prior to the vote at the Annual Meeting, you may do so and your proxy will have no further effect.

We appreciate your continued support and look forward to seeing you at the Annual Meeting.

Sincerely,

William G. Foster, Jr.
President and Chief Executive Officer

Midlothian, Virginia

April 16, 2014

PRELIMINARY PROXY – SUBJECT TO COMPLETION

VILLAGE BANK AND TRUST FINANCIAL CORP.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 20, 2014

YOU ARE HEREBY NOTIFIED of and invited to attend the Annual Meeting of Shareholders of Village Bank and Trust Financial Corp., a Virginia corporation, to be held on May 20, 2014 at 10:00 a.m. Eastern Daylight Time at the main office of Village Bank located at Watkins Centre, 15521 Midlothian Turnpike, Midlothian, Virginia for the purpose of considering and voting upon the following:

1. The election of five directors for a term of three years each;
2. The approval, in an advisory (non-binding) vote, of the executive compensation disclosed in this Proxy Statement;
3. The approval of an amendment to Village Bank and Trust Financial Corp.'s Articles of Incorporation to authorize its board of directors to effect a reverse stock split of its common stock;
4. The approval of an amendment to the Village Bank and Trust Financial Corp. Incentive Plan;
5. The ratification of the appointment of BDO USA, LLP as Village Bank and Trust Financial Corp.'s independent registered public accounting firm for the year ending December 31, 2014; and
6. To transact any other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Our board of directors has fixed the close of business on April 2, 2014 as the record date for determination of our shareholders entitled to receive notice of and to vote at the Annual Meeting. The Annual Meeting may be adjourned or postponed from time to time upon approval of our shareholders without any notice other than by announcement at the Annual Meeting of the adjournment or postponement thereof, and any and all business for which notice is hereby given may be transacted at such adjourned or postponed Annual Meeting.

By Order of the Board of Directors,

Deborah M. Golding
Vice President, Corporate Secretary

Midlothian, Virginia
April 16, 2014

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
SHAREHOLDER MEETING TO BE HELD ON MAY 20, 2014**

The Proxy Statement and the fiscal 2013 Annual Report to Shareholders on Form 10-K are available at
www.villagebank.com/proxy.html.

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PROXY STATEMENT OF

VILLAGE BANK AND TRUST FINANCIAL CORP.

15521 Midlothian Turnpike

Midlothian, Virginia 23113

FOR ANNUAL MEETING OF SHAREHOLDERS

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by the board of directors of Village Bank and Trust Financial Corp. (the “Company”) to be used at the Annual Meeting of Shareholders (the “Annual Meeting”) to be held on May 20, 2014 at 10:00 a.m. Eastern Daylight Time at the main office of Village Bank located at Watkins Centre, 15521 Midlothian Turnpike, Midlothian, Virginia. The notice of Annual Meeting, the proxy card, and this Proxy Statement are being first mailed on or about April 16, 2014, to shareholders of record of the Company’s common stock as of the close of business on April 2, 2014 (the “Record Date”).

Who Can Vote

You can vote at the Annual Meeting if you owned shares of the Company’s common stock, par value \$4.00 per share, as of the close of business on April 2, 2014, the Record Date. Each share of common stock is entitled to one vote. The number of shares outstanding on the Record Date was 5,294,497. When you give the Company your proxy, you authorize the Company to vote your shares per your instructions whether or not you attend the Annual Meeting. The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of common stock is necessary to constitute a quorum at the Annual Meeting.

Executing Your Right to Vote

By completing and returning the enclosed proxy card in time to be voted at the Annual Meeting, the shares represented by it will be voted in accordance with the instructions marked on the card. Signed but unmarked proxies will be voted on all business matters as recommended by the board of directors. A shareholder may abstain or (only with respect to the election of directors) withhold his or her vote (collectively, “Abstentions”) with respect to each item

submitted for shareholder approval. Abstentions will be counted for purposes of determining the existence of a quorum. Abstentions will not be counted as voting in favor of or against the relevant item.

A broker who holds shares in “street name” has the authority to vote on certain items when it has not received instructions from the beneficial owner. Except for certain items for which brokers are prohibited from exercising their discretion, a broker is entitled to vote on matters presented to shareholders without instructions from the beneficial owner. “Broker shares” that are voted on at least one matter will be counted for purposes of determining the existence of a quorum for the transaction of business at the Annual Meeting. Where brokers do not have or do not exercise such discretion, the inability or failure to vote is referred to as a “broker nonvote.” Under the circumstances where the broker is not permitted to, or does not, exercise its discretion, assuming proper disclosure to the Company of such inability to vote, broker nonvotes will not be counted as voting in favor of or against the particular matter. A broker is prohibited from voting on the election of directors, the advisory vote on executive compensation, the amendment to the Company’s Articles of Incorporation and the amendment to the Village Bank and Trust Financial Corp. Incentive Plan without instructions from the beneficial owner; therefore, there may be broker nonvotes on Proposals One, Two, Three and Four. We expect that brokers will be allowed to exercise discretionary authority for beneficial owners who have not provided voting instructions with respect to Proposal Five; therefore, no broker nonvotes are expected to exist in connection with such proposal.

Abstentions and broker nonvotes will not count as votes cast in any matters to be acted upon at the Annual Meeting. Therefore, abstentions and broker non-votes will have no effect on the voting on these matters at the meeting, with the exception of Proposal Three. Abstentions and broker nonvotes, if any, will have the effect of a vote against Proposal Three.

The board of directors does not know of any other matters that are to come before the Annual Meeting except for incidental, procedural matters. If any other matters are properly brought before the Annual Meeting, the persons named in the accompanying proxy card will vote the shares represented by each proxy on such matters as determined by a majority of the board of directors.

Costs of Proxy Solicitation

The cost of soliciting proxies will be borne by the Company. In addition to the solicitation of proxies by mail, the Company may also solicit proxies through its directors, officers, and employees. The Company will also request persons, firms, and corporations holding shares in their names or in the name of nominees that are beneficially owned by others to send proxy materials to and obtain proxies from those beneficial owners and will reimburse the holders for their reasonable expenses in doing so.

Changing Your Vote

Your presence at the Annual Meeting will not automatically revoke your proxy. However, you may revoke a proxy at any time prior to its exercise by: (1) filing a written notice of revocation with Deborah M. Golding, Corporate Secretary, which may be sent to Ms. Golding's attention at 15521 Midlothian Turnpike, Suite 200, Midlothian, VA 23113; (2) delivering to the Company a duly executed proxy bearing a later date; or (3) attending the Annual Meeting and casting a ballot in person.

PROPOSAL ONE – ELECTION OF DIRECTORS

The board of directors currently consists of thirteen directors that are divided into three classes (A, B and C). William G. Foster, Jr. was appointed to the board in February 2014 in connection with his appointment as the Company's Chief Executive Officer and he will stand for election as a director in Class B at the Annual Meeting. The terms of office of four other directors of the Company will expire at the Annual Meeting and such directors have been nominated for election to serve as directors in Class B for a three-year term ending in 2017. Eight other directors will continue serving terms that end in either 2015 or 2016, as indicated below.

The election of each nominee for director requires the affirmative vote of the holders of a plurality of the shares of common stock cast in the election of directors. If the proxy is executed in such manner as not to withhold authority for the election of any or all of the nominees for directors, then the persons named in the proxy will vote the shares represented by the proxy for the election of the nominees named below. If the proxy indicates that the shareholder wishes to withhold a vote from one or more nominees for director, such instructions will be followed by the persons named in the proxy.

Each nominee has consented to being named in this Proxy Statement and has agreed to serve, if elected. The board of directors has no reason to believe that any of the nominees will be unable or unwilling to serve. If, at the time of the Annual Meeting, any nominee is unable or unwilling to serve as a director, votes will be cast, pursuant to the enclosed proxy, for such substitute nominee as may be nominated by the board of directors. There are no current arrangements between any nominee and any other person pursuant to which a nominee was selected. No family relationships exist among any of the directors or between any of the directors and executive officers of the Company

The following biographical information discloses each nominee's and incumbent director's age, business experience in the past five years and the year each individual was first elected to the board of directors of the Company or its predecessor and current subsidiary, Village Bank (the "Bank"). In addition, the following information includes the particular experience, qualifications, attributes or skills that led the board of directors to conclude that the person should serve as a director. Unless otherwise specified, each nominee and incumbent director has held his current position for at least five years.

Nominees for Election as Directors

For Terms Expiring in 2017 (Class B)

R. T. Avery, III, 64, has been a director since 1998. Mr. Avery is President and co-founder of Chesterfield Construction Services, Inc., which trades as Emerald Homes. This company specializes in the "work force affordable"

sector of the residential construction market. Mr. Avery has over 30 years of experience in real estate development and home building in central Virginia. This experience provides managerial expertise to the board of directors as well as an extensive knowledge of the real estate market in which the Bank operates. Mr. Avery currently serves as the Co-Chair of the Directors Loan Committee and is also a member of the Asset Quality Committee and Regulatory Oversight Committee.

William B. Chandler, 64, has been a director since 1998. Mr. Chandler has developed significant managerial and marketing skills as a co-owner in two corporations: Manchester Industries, Inc., which converts board and paper into sheets from roll stock for the printing industries, and Plastex Fabricators, Inc., which is a fabricator of industrial and commercial plastics used for décor in the retail industry. He currently is responsible for engineering, construction, safety and production of Manchester Industries and serves as its Executive Vice President. He is also President of Plastex Fabricators located in Charlotte, North Carolina. Mr. Chandler currently serves as Chairman of the Compensation Committee and is also a member of the Audit Committee, Strategic Planning Committee and Regulatory Oversight Committee.

R. Calvert Esleeck, Jr., 69, has been a director since 1998. He brings financial expertise and business leadership skills developed through owning and managing Murray & Esleeck, P.C., a certified public accounting firm in Chesterfield County, Virginia for 30 years before his retirement in 2008. Mr. Esleeck is a combat veteran of the Vietnam War where he served as a Marine infantry officer. He is also a founder of the Families of the Wounded Fund, Inc., an organization dedicated to helping the families of service members severely wounded in Iraq and Afghanistan who are being treated at McGuire Veterans Hospital. He was Past President of the Fund and currently serves on its board of directors. Mr. Esleeck qualifies as an audit committee financial expert under Securities and Exchange Commission (“SEC”) guidelines. Mr. Esleeck currently serves as Co-Chair of the Audit Committee and is also a member of the Asset Quality Committee, Nominating and Corporate Governance Committee and Regulatory Oversight Committee.

Charles E. Walton, 68, has been a director since 2008 when River City Bank merged with the Bank. He formerly served as a director of River City Bank. Mr. Walton is the owner of Charles E. Walton & Co., P.C., a certified public accounting firm. Mr. Walton provides accounting and auditing experience, as well as investment and business advisory skills that are critical for the Company. Mr. Walton qualifies as an audit committee financial expert under SEC guidelines. Mr. Walton currently serves as Co-Chair of the Audit Committee and is also a member of the Compensation Committee and Regulatory Oversight Committee.

William G. Foster, Jr., 52, has served as Chief Executive Officer of the Company and the Bank since March 1, 2014. He has served as President of the Company and the Bank since August 2013. He previously served as Senior Vice President and Chief Credit Officer of the Bank since March 2012. Prior thereto, he was an independent consultant focusing on business restructuring, turnaround and strategic planning. From March 1990 until April 2008, he served in several executive leadership roles with SunTrust Bank, including Group Executive Vice President-MidAtlantic Commercial Real Estate Banking, Senior Managing Director and Senior Credit Officer for Corporate and Investment Banking, and Group Executive Vice President-MidAtlantic Commercial Banking Line of Business. Mr. Foster has more than 26 years of banking industry experience, which has afforded him broad knowledge and a keen understanding of all aspects of banking. In addition to his banking experience, he currently serves on the Cabinet for the Chesterfield Business Council of the Greater Richmond Chamber of Commerce and is on the board of directors of the Chesterfield Chamber of Commerce. Mr. Foster currently serves on the Bank’s Executive Committee, Strategic Planning Committee, Asset Quality Committee and is an Advisory Member of the Compensation Committee. He is also a member of the board of directors of Village Bank Mortgage Corporation.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE
SHAREHOLDERS VOTE FOR THE NOMINEES SET FORTH ABOVE.**

Incumbent Directors

Whose Terms Will Expire in 2015 (Class C)

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Donald J. Balzer, Jr., 59, has been a director since 1998. Mr. Balzer is a Licensed Professional Engineer who served as President of Balzer & Associates, Inc. and as Chairman of its board of directors until his retirement in 2005. He currently serves as President of Cross Creek Development Corp. and is a Class A Licensed Contractor with Benchmark Construction. He also serves on the board of Powhatan County's Economic Development Authority. These responsibilities allow Mr. Balzer to bring financial, investment, and real estate development experience to the board of directors. Mr. Balzer currently serves as a member of Nominating and Corporate Governance Committee, Directors Loan Committee, Asset Quality Committee and Regulatory Oversight Committee.

Michael A. Katzen, 60, has been a director since 2008 when River City Bank merged with the Bank. He formerly served as a director of River City Bank. Mr. Katzen is a partner in the law firm of Katzen & Frye, P.C. His experience with real estate law provides the board of directors with expertise in evaluating significant loan relationships as well as working out nonperforming loans collateralized by real estate. Mr. Katzen currently serves as a Chairman of the Strategic Planning Committee. He is also a member of the Executive Committee, Directors Loan Committee, Asset Quality Committee and Regulatory Oversight Committee. He also serves on the board of directors of Village Bank Mortgage Corporation.

Michael L. Toalson, 61, has been a director since 2004. Mr. Toalson is Chief Executive Officer of the Home Builders Association of Virginia (“HBAV”). He heads the HBAV lobbying team before state lawmakers and regulators and is the chief administrative officer of the 3,000 member business organization. His familiarity with various home builders and the Virginia real estate market in general are invaluable to the board of directors in evaluating significant loan relationships and marketing the Bank’s services to the home building community. Mr. Toalson currently serves as Chairman of the Asset Quality Committee and is also as a member of the Compensation Committee and Regulatory Oversight Committee. He also serves on the board of directors of Village Bank Mortgage Corporation.

O. Woodland Hogg, Jr., 68, has been a director since 2008 when River City Bank merged with the Bank. He formerly served as a director of River City Bank. Mr. Hogg is the owner and principal broker of ERA Woody Hogg & Associates, a real estate brokerage business. He brings managerial skills as well as a keen knowledge of the real estate market in central Virginia to the board of directors. Mr. Hogg currently serves as a member of the Executive Committee, Directors Loan Committee, Strategic Planning Committee and Regulatory Oversight Committee. He also serves on the board of directors of Village Bank Mortgage Corporation.

Incumbent Directors

Whose Term Will Expire in 2016 (Class A)

Craig D. Bell, 56, is a founder of the Bank and has been a director since 1998. Mr. Bell is Chairman of the board of directors of the Company. He is a partner with the law firm of McGuireWoods LLP, where he is the Chair of the Tax and Employee Benefits Department and is the head of the State and Local Tax and Tax Litigation Groups. McGuireWoods is a 1,000 attorney international law firm having offices in twelve states and five countries. Mr. Bell is an Emeritus Director of the Community Tax Law Project, a non-profit provider of pro bono tax assistance to low income families and its former President; a Fellow of the American College of Tax Council; former Chair of both the Virginia State Bar Section of Taxation and the Virginia Bar Association Tax Section; a Barrister member of the Edgar J. Murdock Inn of Court for Tax; an adjunct Professor of Law at the College of William and Mary School of Law; and a Trustee of both the Virginia War Museum and the Henricus Park Foundation. Mr. Bell retired from the Army Reserves in 2006 as a Lieutenant Colonel after completing 27 years of service. As a result of this experience, Mr. Bell brings leadership and decision making skills to the board of directors. Mr. Bell currently serves as Chairman of the Executive Committee, Chairman of the Nominating and Corporate Governance Committee, and Chairman of the Regulatory Oversight Committee. He is also a member of the Compensation Committee and Strategic Planning

Committee.

John T. Wash, 69, has been a director since 2008 when River City Bank merged with the Bank. He formerly served as a director of River City Bank. Mr. Wash has developed significant managerial and marketing skills as a real estate investor and Managing Partner of Hanover Plaza, LLC and Bay Court Associates, LLC since 1988. In addition, Mr. Wash was previously President of Galeski Optical from 1999 to 2005 and owner of Hanover Cleaners & Tuxedo Rentals from 1978 to 2008. Mr. Wash currently serves as Co-Chair of the Directors Loan Committee and is also a member of the Compensation Committee, Nominating and Corporate Governance Committee and Regulatory Oversight Committee.

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George R. Whittemore, age 64, has been a director since 1998. Mr. Whittemore is retired. He is a member of the board of directors of Supertel Hospitality, Inc., a publicly traded real estate investment trust that owns hotels and currently serves as chairman of its compensation committee and is a member of its audit committee. He was a consultant to Supertel Hospitality from August 2004 to August 2005 and its president from November 2001 to August 2004. Mr. Whittemore served as director and Senior Vice President/Senior Administrative Officer of Anderson & Strudwick, Inc., a brokerage and investment banking firm from November 1996 until November 2001. He was President/Chief Executive Officer of Pioneer Financial Corporation and its subsidiary, Pioneer Federal Savings Bank, from September 1982 until its merger with Signet Banking Corporation (now Wells Fargo Corporation) in August 1994. Mr. Whittemore was a director of Prime Group Realty Trust, Inc., a real estate investment trust that owned commercial office buildings, and served as chairman of its audit committee from July 2005 until December 2012. He is also a director of Lightstone Value Plus REIT (since July 2006) and Lightstone Value Plus REIT II (since June 2008), both non-publicly traded real estate investment trusts that own various types of commercial real estate and related investments, and is a member of the audit committee of both companies. Mr. Whittemore provides experience in banking, investment banking, commercial real estate, and public company management and board experience that are important to the Company. Mr. Whittemore currently serves as a member of the Directors Loan Committee, Audit Committee, Asset Quality Committee, Nominating and Corporate Governance Committee and Regulatory Oversight Committee. He is also a member of the board of directors of Village Bank Mortgage Corporation.

Thomas W. Winfree, 69, has been a director since 2001. Mr. Winfree has been a Virginia banker for more than 45 years and served as Chief Executive Officer and President of the Company from its inception until his retirement on February 28, 2014. He has also served as President of the Bank from 2001 to August 2013 and as Chief Executive Officer of the Bank from 2001 until his retirement in February 2014. This experience afforded him broad knowledge and a keen understanding of all aspects of banking. In addition to his banking experience, he served as President of the Chesterfield Chamber of Commerce during 2004 and was appointed to again serve on the Chamber's board of directors in 2009-2010. Mr. Winfree is also a founding member and Director of the Families of the Wounded Fund, Inc., an organization dedicated to helping the families of soldiers severely wounded in Iraq and Afghanistan who are being treated at McGuire Veterans Hospital. He currently serves on the Bon Secours Health Systems Joint Hospitals board where he was Chairman of the board from 2010 through 2013, the St. Francis Medical Center Citizens board, the Greater Richmond Chamber of Commerce board, the Better Business board serving Central Virginia, Richmond's Capital Region Collaborative, and the Goochland Rotary Club. Mr. Winfree currently serves as Vice-Chairman of the Board of Directors and Vice-Chairman of the Executive Committee of both the Company and the Bank. He is also a member of the Directors Loan Committee, Asset Quality Committee and Regulatory Oversight Committee. He also serves as Chairman of the board of directors of Village Bank Mortgage Corporation.

Executive Officers Who Are Not Directors

Dennis J. Falk, 55, has served as Executive Vice President-Chief Administrative Officer and Treasurer since January 2012 and as Senior Vice President-Treasurer/Controller from December 2009 to December 2011. Prior to that, Mr. Falk served as Senior Vice President-Commercial Banking for the Bank from April 2006 to December 2009. Prior to his service at the Bank, Mr. Falk served as Senior Vice President for SunTrust Bank and was employed by SunTrust (and its predecessor bank in the MidAtlantic region, Crestar Bank) for 14 years. Mr. Falk has over 33 years of banking industry experience.

James E. Hendricks, Jr., 50, has served as Executive Vice President and Chief Credit Officer since March 1, 2014 and as Director of Special Assets since September 2013. Prior to that, Mr. Hendricks served at SunTrust Bank as the Senior Vice President and Mortgage Chief Operational Risk Officer from December 2012 to April 2013, Senior Vice President and Consumer Banking Chief Operational Risk Officer from November 2009 to December 2012, and as Senior Vice President and Consumer Lending Credit and Compliance Risk Officer from August 1999 to November 2009. Mr. Hendricks has over 29 years of banking industry experience.

Rebecca L. “Joy” Kline, 56, has served as Executive Vice President–Retail of the Bank since September 2009. Prior to that, Mrs. Kline served as Vice President-Retail Manager of the Bank since 2006. Prior to her service to the Bank, Mrs. Kline was First Vice President of First Market Bank and Senior Vice President of Central Fidelity Bank. Mrs. Kline has over 35 years of banking industry experience.

Jerry W. Mabry, 66, has served as President and CEO of Village Bank Mortgage Corporation since April 2007. Prior to joining the Mortgage Corporation, Mr. Mabry served as a Senior Vice President for Benchmark Mortgage Corp and as Executive Vice President of Home Loan Corp. Mr. Mabry has over 44 years of experience in mortgage banking.

Max C. Morehead, Jr., 50, has served as Managing Director-Commercial Banking since March 2014. He has 27 years banking experience at SunTrust Bank (and its predecessor bank in the Mid-Atlantic region, Crestar Bank) and First Citizens Bank. During the majority of his 25 years at SunTrust, Mr. Morehead held various positions, including managing commercial and business banking groups. He is a 1986 graduate of the Virginia Military Institute.

Raymond E. Sanders, 60, has served as Executive Vice President of the Company since its inception. He has served as Executive Vice President and Chief Operating Officer of the Bank since June 2004; and also as Chief Risk Officer since 2010. He served as Senior Vice President-Retail Banking from July 2002 to June 2004. Mr. Sanders previously served as President of Seasons Mortgage Group from October 1993 until the company was sold in May 2001. He has over 35 years of experience in retail and mortgage banking.

C. Harril Whitehurst, Jr., 63, has served as Executive Vice President and Chief Financial Officer of the Company since its inception. He has served as Executive Vice President and Chief Financial Officer of the Bank since September 2003. He serves on the Board of Chesterfield County’s Economic Development Authority. Mr. Whitehurst has over 40 years of banking industry experience, including 25 years in public accounting as a partner of an international public accounting firm. He also serves on the board of directors of Village Bank Mortgage Corporation.

SECURITY OWNERSHIP

Security Ownership of Management

The following table sets forth, as of March 21, 2014, unless otherwise noted, certain information with respect to the beneficial ownership of shares of common stock by each of the directors and director nominees, by the executive

officers named in the “Summary Compensation Table” below, and by such directors and executive officers as a group. Beneficial ownership includes shares, if any, held in the name of the spouse, minor children or other relatives of a director or executive officer living in such person’s home, as well as shares, if any, held in the name of another person under an arrangement whereby the director or executive officer can vest title in himself at once or at some future time.

VILLAGE BANK AND TRUST FINANCIAL CORP.
Beneficial Ownership

Name	Amount and Nature of Beneficial Ownership	Percent of Class (%)
Directors		
R. T. Avery, III ⁽¹⁾	164,088	3.07 %
Donald J. Balzer, Jr. ⁽²⁾	178,520	3.34 %
Craig D. Bell ⁽³⁾	164,089	3.07 %
William B. Chandler ⁽⁴⁾	147,145	2.76 %
R. Calvert Esleeck, Jr. ⁽⁵⁾	118,020	2.21 %
William G. Foster, Jr. ⁽⁶⁾	146,994	2.75 %
O. Woodland Hogg ⁽⁷⁾	111,345	2.09 %
Michael A. Katzen ⁽⁸⁾	84,044	1.57 %
Michael L. Toalson ⁽⁹⁾	85,875	1.61 %
Charles E. Walton ⁽¹⁰⁾	94,706	1.77 %
John T. Wash ⁽¹¹⁾	72,406	1.36 %
George R. Whittemore ⁽¹²⁾	106,945	2.00 %
Thomas W. Winfree ⁽¹³⁾	129,602	2.43 %
Named Executive Officers		
Raymond E. Sanders ⁽¹⁴⁾	19,739	*
C. Harril Whitehurst, Jr. ⁽¹⁵⁾	30,066	*
Directors and executive officers as a group (20 persons)	1,733,416	32.47 %

* Indicates
that
holdings
amount to
less than
1% of the
outstanding
shares of
common
stock.

⁽¹⁾Amount disclosed includes 13,500 shares of common stock owned by Mr. Avery; 5,200 shares of common stock in Mr. Avery's Simplified Employee Pension Plan; 1,200 shares of common stock in Mr. Avery's IRA account; 9,700 shares of common stock in Mr. Avery's 401(k) account; 4,070 shares of common stock owned by Mr. Avery's son;

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49,773 shares of common stock owned by Mr. Avery's spouse, and 80,645 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO Raymond T. Avery, III.

(2) Amount disclosed includes 71,825 shares of common stock owned by Mr. Balzer; 3,265 shares of common stock in Mr. Balzer's IRA account; 5,800 shares of common stock owned by DJB Family Ltd. Partnership; 7,629 shares of common stock owned by Mr. Balzer's children; and 90,001 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO Donald J. Balzer, Jr.

(3) Amount disclosed includes 49,001 shares of common stock owned by Mr. Bell; 4,100 shares of common stock in Mr. Bell's IRA account; 100 shares of common stock owned jointly with Mr. Bell's brother, and 104,888 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO Craig D. Bell.

Amount disclosed includes 60,500 shares of common stock owned by Mr. Chandler; 6,000 shares of common stock (4) owned by Mr. Chandler's children; and 80,645 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO William B. Chandler.

Amount disclosed includes 20,400 shares of common stock owned by Mr. Esleeck, of which 9,000 shares are held jointly with Mr. Esleeck's spouse; 190 shares of common stock in Mr. Esleeck's Roth IRA account; 1,766 shares of (5) common stock in Mr. Esleeck's IRA account; 9,712 shares of common stock owned by Mr. Esleeck's spouse; 5,307 shares of common stock owned by Mr. Esleeck's children; and 80,645 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO R. Calvert Esleeck, Jr.

(6) Amount disclosed includes 80,645 shares of common stock owned by Mr. Foster, of which 70,645 shares are held jointly with his spouse; options to acquire 5,000 shares of common stock; and a restricted stock award (time-based) of 61,349 shares, of which none have vested.

Amount disclosed includes 92,348 shares of common stock owned by Mr. Hogg, of which 21,707 shares are held (7) jointly with Mr. Hogg's spouse; 5,440 shares of common stock in Mr. Hogg's IRA account; 5,505 shares of common stock owned by Mr. Hogg's spouse; and 8,052 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO O. Woodland Hogg, Jr.

(8) Amount disclosed includes 21,340 shares of common stock owned by Mr. Katzen, of which 18,340 shares are held jointly with Mr. Katzen's spouse; and 62,704 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO Michael A. Katzen.

Amount disclosed includes 4,000 shares of common stock owned by Mr. Toalson jointly with his spouse; 58,194 (9) shares of common stock in Mr. Toalson's IRA account; and 23,682 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO Michael L. Toalson.

(10) Amount disclosed includes 81,716 shares of common stock owned by Mr. Walton, of which 4,000 shares are held jointly with Mr. Walton's spouse; 11,410 shares of common stock in Mr. Walton's IRA account; 830 shares of common stock in Mr. Walton's ROTH IRA account; and 750 shares of common stock owned by Mr. Walton's spouse.

(11) Amount disclosed includes 64,516 shares of common stock owned by Mr. Wash; and 7,890 shares of common stock in Mr. Wash's IRA account.

(12) Amount disclosed includes 2,600 shares of common stock owned by Mr. Whittemore; 49,384 shares of common stock in Mr. Whittemore's IRA account; 17,500 shares of common stock owned by Mr. Whittemore's spouse; and 34,961 shares of common stock held by the Trustee under the Village Bank Outside Directors Deferral Plan Trust FBO George R. Whittemore.

(13) Amount disclosed includes 112,912 shares of common stock owned by Mr. Winfree; 1,022 shares of common stock in Mr. Winfree's IRA account; 1,323 shares of common stock in Mr. Winfree's Roth IRA account; 200 shares of common stock owned by Mr. Winfree's son; and options to acquire 14,145 shares of common stock.

(14) Amount disclosed includes 10,739 shares of common stock owned by Mr. Sanders; and options to acquire 9,000 shares of common stock.

(15) Amount disclosed includes 25,066 shares of common stock owned by Mr. Whitehurst, of which 16,129 is held jointly with spouse; and options to acquire 5,000 shares of common stock.

Security Ownership of Certain Beneficial Owners

The following table sets forth, as of March 21, 2014, unless otherwise noted, certain information known to the Company with respect to the beneficial ownership of shares of common stock by owners of 5% or more of the outstanding shares of the Company's common stock. Beneficial ownership includes shares, if any, held in the name of the spouse, minor children or other relatives of such owner living in such person's home, as well as shares, if any, held

in the name of another person under an arrangement whereby such owner can vest title in himself at once or at some future time.

Certain Beneficial Owners

Name	Amount and Nature of Beneficial Ownership	Percent of Class (%)
John S. Clark 1633 Broadway, 30th Floor New York, NY 10019	354,669	6.64 %

Mr. Clark beneficially owns 354,669 shares of common stock. Mr. Clark has sole voting and dispositive power with respect to 322,669 shares of common stock, which includes 12,000 shares of common stock held by trusts for which he serves as sole trustee. Mr. Clark has shared voting and dispositive power with respect to 32,000 shares of common stock deemed beneficially owned by his spouse.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires the Company’s directors and executive officers, and any persons who own more than 10% of the outstanding shares of common stock, to file reports of ownership and changes in ownership of common stock. Officers and directors are required by regulations to furnish the Company with copies of all Section 16(a) reports that they file. Based solely on review of the copies of such reports furnished to the Company or written representation that no other reports were required, the Company believes that, during fiscal year 2013, there were five late filings, specifically a Form 4 for Craig D. Bell for stock options issued July 15, 2013, Form 4 for Raymond E. Sanders, Jr. for stock options issued July 15, 2013 and September 26, 2013, a Form 4 for C. Harril Whitehurst, Jr. for stock options issued September 26, 2013, and a Form 4 for George R. Whittemore for stock options issued July 15, 2013. All other directors and executive officers complied with all applicable Section 16(a) filing requirements.

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

General

The business and affairs of the Company are managed under the direction of the board of directors in accordance with the Virginia Stock Corporation Act and the Company’s Articles of Incorporation and Bylaws. Members of the board are kept informed of the Company’s business through discussions with the President and Chief Executive Officer and

other officers, by reviewing materials provided to them and by participating in meetings of the board of directors and its committees.

Board Leadership

The positions of Chairman of the board of directors and President and Chief Executive Officer of the Company are held by separate persons due to the distinct and time consuming natures of these roles. The principal role of the President and Chief Executive Officer is to manage the business of the Company in a safe, sound, and profitable manner. The role of the board of directors, including its Chairman, is to provide independent oversight of the President and Chief Executive Officer, to oversee the business and affairs of the Company for the benefit of its shareholders, and to balance the interests of the Company's diverse constituencies including shareholders, customers, employees, and communities.

Each board member of the Company also serves as a director of the Bank. Our directors are also actively involved in our strategic planning process and the management of our nonperforming assets.

Independence of the Directors

The board of directors has determined that the following eleven individuals of its thirteen current members are independent as defined by applicable SEC rules and the listing standards of the NASDAQ Stock Market (“NASDAQ”): R. T. Avery, III, Donald J. Balzer, Jr., Craig D. Bell, William B. Chandler, R. Calvert Esleeck, Jr., O. Woodland Hogg, Jr., Michael A. Katzen, Michael L. Toalson, Charles E. Walton, John T. Wash, Sr. and George R. Whittemore. In reaching this conclusion, the board of directors considered that the Company and its subsidiary conduct business with companies of which certain members of the board of directors or members of their immediate families are or were directors or officers.

In addition to the matters discussed below under “Certain Relationships and Related Transactions”, the board of directors considered the following relationships between the Company and two of its directors to determine whether such directors were independent under applicable SEC rules and NASDAQ’s listing standards:

- Donald J. Balzer, Jr. is a member of the board of directors of Balzer & Associates, Inc., an architectural, engineering, surveying and landscape architectural firm. The Company paid Balzer & Associates approximately \$67,532 to provide engineering and landscape design services in 2013.
- Craig D. Bell is a partner with the law firm of McGuire Woods LLP. The Company paid McGuire Woods, LLP approximately \$75,281 in legal fees in 2013.

There were no other relationships between the Company and its directors except as disclosed below under “Certain Relationships and Related Transactions”.

Board and Committee Meeting Attendance

In 2013, there were 12 meetings of the Company’s board of directors and 14 meetings of the Bank’s board of directors. Each incumbent director attended greater than 75% of the aggregate number of meetings of the board of directors and meetings of committees of which the director was a member in 2013.

Executive Sessions

The board of directors expects to hold executive sessions of independent directors at each board meeting. At least one executive session is held for the purpose of evaluating the President and Chief Executive Officer. Any independent

director can request that an executive session be scheduled.

Board's Role in Risk Oversight

The board of directors oversees risk management to be reasonably certain that the Company's risk management policies, procedures, and practices are consistent with corporate strategy and functioning appropriately.

The board of directors performs its risk oversight in several ways. The board of directors establishes standards for risk management by approving policies that address and mitigate the Company's most material risks. These include policies addressing credit risk, interest rate risk, capital risk, and liquidity risk, as well as Bank Secrecy Act/Anti-Money-Laundering compliance. The board of directors also monitors, reviews, and reacts to risk through various reports presented by management, internal and external auditors, and regulatory examiners.

The board of directors conducts certain risk oversight activities through its committees with direct oversight over specific functional areas. The risk oversight activities of the Audit, Compensation, Executive, Nominating and Corporate Governance Committees are described in the "Committees of the Board" section of this Proxy Statement, below; in the "Executive Compensation" section, beginning on page 16, and in the "Audit Information" section, beginning on page 34.

The board of directors is empowered to create additional standing and ad hoc committees to facilitate regular monitoring and deeper analysis of matters that may arise from time to time. The board of directors also meets regularly in executive session to discuss a variety of topics, including risk, without members of management present.

In the foregoing ways, the full board of directors is able to monitor the Company's risk profile and risk management activities on an ongoing basis.

Committees of the Board

The Company has an Audit Committee, Compensation Committee, Executive Committee and Nominating and Corporate Governance Committee.

Audit Committee

The Company's Audit Committee assists the board of directors in fulfilling its oversight responsibility to the shareholders relating to the integrity of the Company's financial statements, compliance with legal and regulatory requirements and the qualifications, independence and the performance of the internal audit function. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Company. The board of directors has adopted a written charter for the Audit Committee. A copy of the charter is available at our website at www.villagebank.com under "Investor Relations-Governance Documents".

In 2013, the members of the Audit Committee were Messrs. Esleeck, Walton and Chandler and Mr. Whittemore joined the Committee in January 2014. The board of directors, in its business judgment, has determined that such directors are independent as defined by NASDAQ's listing standards and SEC regulations. The board of directors also has determined that all of the members of the Audit Committee have sufficient knowledge in financial and auditing matters to serve on the Audit Committee and that Mr. Esleeck and Mr. Walton qualify as audit committee financial experts as defined by SEC regulations.

The Audit Committee met seven times in 2013. For additional information regarding the Audit Committee, see "Audit Information – Audit Committee Report" later in this Proxy Statement.

Compensation Committee

The Company's Compensation Committee assists the board of directors in fulfilling their responsibility to the shareholders to ensure that the Company's officers, key executives, and board members are compensated in accordance with the Company's total compensation objectives and executive compensation policy. The Compensation Committee advises and recommends for approval compensation policies, strategies, and pay levels necessary to support organizational objectives. The board of directors has adopted a written charter for the Compensation Committee. A copy of the charter is also available at our website at www.villagebank.com "Investor Relations," "Governance Documents".

In 2013, the members of the Compensation Committee were Messrs. Chandler, Bell, Hogg, Toalson, Walton and Wash, all of whom the board in its business judgment has determined are independent as defined by NASDAQ's listing standards and SEC regulations.

The Compensation Committee's primary objective is to provide competitive levels of compensation to attract, retain and reward outstanding executive officers. In a highly competitive community banking marketplace, excellent leadership is essential. Our executive officers are expected to manage the business of the Company in a manner that promotes its growth and profitability for the benefit of our shareholders. To that end, we believe that:

- Our key executives should have compensation opportunities at levels that are competitive with peer institutions;

- Total compensation should include significant "at risk" components that are linked to annual and longer term performance results; and

- Stock-based compensation should form a key component of total compensation as a means of linking executive management to the long term performance of the Company and aligning their interests with those of shareholders.

The Compensation Committee's compensation philosophy with respect to its executive officers is one of pay for performance. Accordingly, an executive officer's annual compensation consists of a base salary, an annual monetary bonus and stock-based compensation. The annual monetary bonus is utilized to reward our executives for achieving short-term financial and productivity goals, and stock-based compensation is utilized for achieving long-term financial and productivity goals. The Compensation Committee evaluates all compensation plans to ensure that they do not encourage unnecessary or excessive risk. No monetary bonus has been paid any executive officer for the last two years.

The Compensation Committee has engaged Lockton Companies, LLC as an independent executive compensation advisor. The compensation advisor advises the Compensation Committee on matters relating to compensation benchmarking, staying current with regulatory and legal issues related to executive compensation, and designing appropriate compensation programs. As part of its consultation with the Compensation Committee, the compensation advisor provides the Committee with peer group comparisons. The Compensation Committee has direct access to the consultant and control over its engagement. The Compensation Committee has determined that the work of the compensation advisor and its employees as compensation consultants to the Company has not created any conflict of interest.

The Compensation Committee met four times in 2013.

Executive Committee

When the board of directors is not in session, the Executive Committee is authorized to exercise all of the board of director's power except for certain responsibilities of the board of directors, such as approval of an amendment of the articles of incorporation, a plan of merger or consolidation or the issuance of stock.

In 2013, the members of the Executive Committee were Messrs. Bell (Chairman), Balzer and Winfree. Messrs. Foster, Katzen and Hogg were appointed to the Executive Committee in 2014. The Executive Committee met five times in 2013.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for selecting and recommending to the board of directors with respect to (i) nominees for election at the Annual Meeting of Shareholders and (ii) nominees to fill board vacancies. The board of directors has adopted a written charter for the Nominating and Corporate Governance Committee, a copy of which is available at our website at www.villagebank.com under "Investor Relations," "Governance Documents".

In 2013, the members of the Nominating and Corporate Governance Committee were Craig D. Bell, Donald J. Balzer, Jr., R. Calvert Esleeck, Jr., Michael A. Katzen and George R. Whittemore, all of whom the board of directors in its business judgment has determined are independent as defined by NASDAQ's listing standards and SEC regulations.

The Nominating and Corporate Governance Committee did not meet during the year ended December 31, 2013.

Director Nomination Process

In identifying potential nominees, the Nominating and Corporate Governance Committee takes into account such factors as it deems appropriate, including the current composition of the board of directors, the range of talents, experiences and skills that would best complement those that are already represented on the board of directors, the balance of management and independent directors and the need for specialized expertise. The Nominating and Corporate Governance Committee considers candidates for board membership suggested by its members and by management, and the independent directors will also consider candidates suggested informally by a shareholder of the Company

In the consideration of director nominees, including any nominee that a shareholder may submit, the Nominating and Corporate Governance Committee considers, at a minimum, the following factors for new directors, or the continued service of existing directors:

- The ability of the prospective nominee to represent the interests of the shareholders of the Company;
- The prospective nominee's standards of integrity, commitment and independence of thought and judgment;
- The prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards;
- The extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the board of directors; and
- The prospective nominee's involvement within the communities the Company serves.

Shareholders entitled to vote for the election of directors may recommend candidates for the Nominating and Corporate Governance Committee to consider formally in connection with an annual meeting as long as the recommendation is made on or before the last date on which a shareholder may nominate an individual for election to the board of directors under the Company's Bylaws.

Under the process used by the Company for selecting new board candidates, the President and Chief Executive Officer and the board of directors identify the need to add a new board member with specific qualifications or to fill a vacancy

on the board. The Chairman of the board of directors will initiate a search, working with staff support and seeking input from board members and executive management, hiring a search firm, if necessary, and considering any candidates recommended by shareholders. An initial slate of candidates that will satisfy criteria and otherwise qualify for membership on the board may be presented to the board of directors. A determination is made as to whether board members have relationships with preferred candidates and can initiate contacts. The President and Chief Executive Officer and the Chairman of the board of directors interview prospective candidates. The board of directors meets to conduct further interviews of prospective candidates, if necessary or appropriate, and to consider and recommend final candidates for approval.

Director Compensation

Members of the board of directors of the Company do not receive fees for their service as directors. However, all of the directors of the Company also serve as directors of the Bank. As compensation for their service to the Bank, each member of the board of directors receives fees as follows:

- an annual retainer fee of \$10,000, paid quarterly in increments of \$2,500;
- an attendance fee of \$500 for each meeting of the board attended (\$650 for the Chair of the board); and
- an attendance fee of \$200 for each meeting of a committee attended (\$300 for the Chair of the committee), with the exception that the Audit Committee members receive \$300 for each meeting attended (\$450 for the Chair of the committee).

Board members who are also officers do not receive any additional compensation above their regular salary for board service or attending committee meetings.

Board members who also serve on the Village Bank Mortgage Corporation board include O. Woodland Hogg, Jr., Michael A. Katzen, Michael L. Toalson, George R. Whittemore and Thomas W. Winfree. Each of the non-employee Directors received \$200 per quarterly meeting for attending such meetings.

In 2005, the Company adopted the Outside Directors Deferral Plan under which non-employee directors of the Bank have the opportunity to defer receipt of all or a portion of their compensation until retirement or departure from the board of directors. Any amounts deferred under this plan are maintained in an account for the benefit of the director and are credited annually with interest on the deferred amount at a rate established by the board of directors in its sole discretion prior to the beginning of each plan year.

In August 2013, Thomas W. Winfree stepped down from his position as President of the Company and the Bank and entered into a new employment agreement pursuant to which he continued to serve as Chief Executive Officer until his eventual retirement in February 2014. Mr. Winfree continues to serve as a member of the board of directors of the Company and the Bank. Further information about Mr. Winfree's employment agreements is included under "Executive Compensation – Employment and Change-in-Control Agreements with Named Executive Officers."

The following table provides information concerning the compensation of all non-employee directors for the year ended December 31, 2013:

Director Compensation for 2013

Name	Fees Earned or Paid in Cash (\$)	Total (\$)
R.T. Avery, III	\$18,350 ⁽¹⁾	\$18,350
Donald J. Balzer, Jr.	20,600 ⁽¹⁾	20,600
Craig D. Bell	23,350 ⁽¹⁾	23,350
William B. Chandler	20,750 ⁽¹⁾	20,750
R. Calvert Esleeck, Jr.	22,550 ⁽¹⁾	22,550
O. Woodland Hogg, Jr.	19,600	19,600
Michael A. Katzen	21,000 ⁽¹⁾	21,000
Michael L. Toalson	21,300	21,300
Charles E. Walton	20,750	20,750
John T. Wash, Sr.	19,500	19,500
George R. Whittemore	22,400	22,400

(1) All fees earned by the director were deferred for the year ended December 31, 2013.

Annual Meeting Attendance

The Company encourages members of the board of directors to attend the Annual Meeting of shareholders. All twelve members of the board at that time attended the 2013 Annual Meeting.

Communications with Directors

Any director may be contacted by writing to the named director, c/o the Company, P.O. Box 330, 15521 Midlothian Turnpike, Suite 200, Midlothian, Virginia 23113. Communications to the non-management directors as a group may be sent to the same address, c/o the Corporate Secretary of the Company. The Company promptly forwards all such correspondence to the indicated directors.

EXECUTIVE COMPENSATION

Executive Officer Compensation

The following table presents information concerning the compensation of the named executive officers for services rendered in all capacities to the Company and the Bank.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) ⁽²⁾	Option Awards (\$) ⁽²⁾	Nonqualified Deferred Compensation Earnings	All Other Compensation (\$) ⁽³⁾	Total
Thomas W. Winfree ⁽¹⁾ President and Chief Executive Officer	2013	\$211,925	\$-	\$-	\$ 163,384	\$ 9,260	\$384,569
	2012	210,000	-	-	26,506	4,494	241,000
William G. Foster ⁽¹⁾ President and Chief Executive Officer	2013	181,573	84,048	-	61,776	10,675	338,072

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C. Harril Whitehurst, Jr.	2013	175,852	-	4,845	50,557	10,790	242,044
Executive Vice President/ Chief Financial Officer	2012	175,000	-	-	31,372	7,281	213,653
Raymond E. Sanders	2013	171,700	-	6,774	50,557	10,467	239,498
Executive Vice President/ Chief Operating Officer	2012	170,106	-	-	31,372	6,977	208,455

(1) Mr. Winfree retired effective February 28, 2014 and Mr. Foster assumed his duties as President and Chief Executive Officer.

(2) The amounts represent the aggregate grant date fair value of each award calculated in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 14 of the Company's audited financial statements for the year ended December 31, 2013 included in the Form 10-K filed with the SEC on March 26, 2014.

(3) Amounts shown in the "All Other Compensation" column are detailed in the following table:

All Other Compensation

Name and Principal Position	Year	Life Insurance Premium	Company Contributions to Retirement and 401(k) Plans	Company Vehicle / Automobile Allowance	Cancer Policy Insurance Premium	Total
Thomas W. Winfree	2013	\$ 4,591	\$ 4,242	\$ -	\$ 427	\$9,260
	2012	4,067	-		427	4,494
William G. Foster	2013	338	3,632	6,000	705	10,675
C. Harril Whitehurst, Jr.	2013	1,026	3,386	6,000	378	10,790
	2012	903	-	6,000	378	7,281
Raymond E. Sanders	2013	655	3,434	6,000	378	10,467
	2012	599	-	6,000	378	6,977

Mr. Winfree has an employment agreement with the Company and the Bank, and Messrs. Foster, Whitehurst and Sanders have employment agreements with the Bank. Mr. Foster also has an employment agreement with the Company which is currently being reviewed by the regulatory entities. Additional information on these employment agreements is described later in this Proxy Statement. Information on the components of executive compensation is set forth below.

Salary. A competitive salary for executive management is essential. Furthermore, flexibility to adapt to the particular skills of an individual or the specific needs of the Company is required. Proposed salary adjustments for executive management are presented to the Compensation Committee by the Chief Executive Officer, typically during the second quarter. The Compensation Committee reviews the recommendations, makes any further adjustments and generally approves the recommendations with input from the Compensation Committee's external compensation advisor. Recommendations regarding adjustments to Mr. Winfree and Mr. Foster's salaries are reviewed and, if appropriate, approved by the Compensation Committee in executive session. The named executive officers received no salary increases in 2012; however, the Compensation Committee did approve increases in 2013 for executive management.

Stock-Based Compensation. The Compensation Committee recommends for approval by the board of directors stock option and restricted stock awards to employees under the Village Bank and Trust Financial Corp. Incentive Plan, as amended and restated June 11, 2013. These awards of stock options and restricted stock are utilized to attract new employees as well as to reward existing employees for performance.

In granting stock options in 2013, the Compensation Committee asked its external compensation advisor to provide a recommendation regarding a stock option grant for executive management. The Compensation Committee's advisor recommended stock option grants for each executive based on the Company's executive compensation philosophy statement described elsewhere in this Proxy Statement and the grants were approved.

In December 2013, the Compensation Committee also approved a restricted stock award of 61,349 shares to Mr. Foster. In approving this award, the Compensation Committee concluded that it should be a time-vested stock award. In accordance with FASB ASC Topic 718, the compensation expense for these restricted stock awards was recognized in the 2013 fiscal year.

Information on restricted stock and option awards to named executive officers in 2013 is provided in the following table:

Grants of Plan-Based Awards in 2013

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#) (1)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) (2)
Thomas W. Winfree		-	-	\$ -	\$-
William G. Foster	8/8/2013	61,349			84,048
C. Harril Whitehurst, Jr.	9/26/2013		5,000	\$ 1.61	4,845
Raymond E. Sanders	7/15/2013		5,000	\$ 1.58	2,898
	9/26/2013		4,000	1.61	3,876
			9,000		6,774

(1) Consists of restricted stock award.

(2) The amounts reported reflect the aggregate grant date fair value of the awards computed in accordance with the Financial Accounting Standards Board's Accounting Standards Codification Topic 718, Compensation – Stock Compensation.

No restricted stock awards or options were granted to the named executive officers in 2012.

Non-Equity Incentive Plan Compensation. We offer executive management an opportunity to receive an annual target non-equity incentive bonus of 15 to 20 percent of their year-end base salary, depending on the executive's

responsibilities. To determine an executive officer's non-equity incentive, the Compensation Committee adopted the 2009 Management Incentive Plan (the "Plan"). Under the Plan, an executive officer can earn a bonus by achieving short-term financial and productivity goals established by the Compensation Committee. These goals are customized for each executive before the beginning of the Plan year to reflect a mix of corporate and individual initiatives and reflect a minimum, target and maximum amount of incentive. For example, Mr. Winfree's targeted incentive awards under the Plan are weighted between corporate (70%) and individual (30%) goals. For others in executive management, the mix of corporate and individual weights is generally 60% / 40% or 50% / 50%, respectively, depending on the organizational responsibility of each executive. At a meeting of the Compensation Committee, usually in December, the Compensation Committee's external compensation advisor recommends award targets and the award schedule (minimum to maximum awards and their relationship to performance intervals), for the upcoming year. The Compensation Committee suspended the Plan for 2011, 2012 and 2013.

Supplemental Executive Retirement Plan. We believe that retirement compensation plays an important role in retaining key executives, as well as helping them provide for retirement. The Compensation Committee retained the compensation advisor to analyze the total retirement benefits provided by the Company and Social Security to employees with various levels of compensation and years of service so that the Compensation Committee could determine the projected replacement ratio of income at retirement compared with active employment. Because of limits under our qualified retirement plan on the amount of deferrals that our executives can make, several of our executives can expect to have a lower retirement replacement ratio than we have targeted for all employees. Consequently, as a matter of “pension equity”, we have adopted a supplemental plan which should provide a benefit for designated executives that will help approach the targeted retirement replacement ratio.

For that reason, we provide a benefit for senior management, including each of the named executive officers. The Company provides a potential supplemental retirement plan benefit of \$50,000 annually for 15 years to Messrs. Winfree and Foster and a potential benefit of \$25,000 annually for 15 years to Messrs. Whitehurst and Sanders. To qualify for the benefit, the executive must remain in the employment of the Company for a stated period of time. Under the plan’s vesting schedule, Mr. Winfree is completely vested. Mr. Foster is in his first year of service and Messrs. Whitehurst and Sanders have completed eight years of a ten year vesting schedule. In the event of a pre-retirement death, vesting is accelerated and the executive’s named beneficiary receives the benefit over the fifteen year payout schedule. In the event of a post-retirement death, the executive’s named beneficiary receives any remaining benefit payments of the fifteen year payout schedule. In the event of a termination of employment resulting from a change in control of the Company, vesting is accelerated and the benefit is paid under the fifteen year payout schedule.

2013 Shareholder Advisory Vote

In 2013, our shareholders voted their approval of the compensation of our executives as described in the Proxy Statement for the Annual Meeting of Shareholders. Approximately 88.6% of all votes cast were for approval of our executive compensation. The Compensation Committee considers these results and appreciates this strong showing of shareholder support for our compensation philosophy, plans and practices. The Compensation Committee strives to continue its work consistent with this support.

Outstanding Equity Awards

The following table sets forth certain information with respect to the amount and value of outstanding equity awards on an award-by-award basis held by the named executive officers at December 31, 2013.

Outstanding Equity Awards at Fiscal Year-end

Name	Grant Date	Option Awards		Option Exercise Price (\$)	Option Expiration Date (1)	Stock Awards	
		Unexercised Options (#)	Exercisable			Number of Shares or Units of Stock That Have Not Vested (#) (2)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (3)
Thomas W. Winfree		-	-				
William G. Foster	8/20/2012 8/19/2013	5,000	3,750	\$ 1.00	8/20/2022	61,349	\$ 86,502
C. Harril Whitehurst, Jr.	9/26/2013	5,000	5,000	\$ 1.61	9/26/2023		
Raymond E. Sanders	7/15/2013 9/26/2013	5,000 4,000 9,000	5,000 4,000 9,000	\$ 1.58 1.61	7/15/2023 9/26/2023		

(1) Each of the incentive stock option awards vests according to the following schedule: 25% after one year, 25% after two years and 50% after three years; once an installment of shares vests and becomes exercisable, the award recipient may exercise such options, or any portion of such installment, for a term often years after the date of grant.

(2) This column represents restricted stock awards. Restricted awards vest on the same schedule as stock options awards.

(3) The market value of the stock awards that have not vested was determined based on the per share closing price of the Company's common stock on December 31, 2013 (\$1.41).

Employment and Change-in-Control Agreements with Named Executive Officers

Securing the continued service of key executives is essential to the successful future of the Company. Employment agreements and management continuity agreements (which help retain key executives during a possible change of control situation) assist the Company by providing security to key executives.

The Company has an employment agreement with Mr. Foster and the Bank has employment agreements with Messrs. Sanders and Whitehurst. In addition, the Company and the Bank had an employment agreement with Mr. Winfree prior to his retirement on February 28, 2014.

Mr. Foster's employment agreement was entered into on August 8, 2013 with an initial term of three years. Pursuant to the terms of his agreement, Mr. Foster was employed initially as the President of the Company and the Bank and became Chief Executive Officer and a director of the Company and the Bank upon Mr. Winfree's retirement. The agreement may be extended by mutual agreement of the parties at any time. Annually, the Compensation Committee of the board of directors will review Mr. Foster's performance for the immediately preceding year and, after such review, may extend his employment agreement. Mr. Foster currently receives a base salary of \$250,000 per year, an increase from the initial base salary of \$200,000 per year that he received prior to becoming Chief Executive Officer. He is a participant in the Village Bank Supplemental Executive Retirement Plan with a potential annual benefit of \$50,000 for 15 years. In addition, he will be granted restricted stock awards in the amount of \$100,000 and will be entitled to participate in benefit plans available to senior executives of the Company and the Bank. Mr. Foster is not entitled to any severance benefits pursuant to his employment agreement. The Company has applied for approval from the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Federal Deposit Insurance Corporation (the "FDIC") of a separate severance and change of control agreement for Mr. Foster.

Messrs. Whitehurst's and Sanders' employment agreements were renewed pursuant to their terms on January 1, 2013 and will expire on December 31, 2014. The executives agreed to perform the services and duties appropriate to their capacities as Executive Vice Presidents of the Bank. Annually, the Compensation Committee of the board of directors reviews Messrs. Whitehurst's and Sanders' performance for the immediately preceding year and, after such review, may extend their employment agreements for an additional twenty-four months. Mr. Whitehurst currently receives an annual base salary of \$175,852 and Mr. Sanders currently receives an annual base salary of \$171,700. Each of Messrs. Whitehurst and Sanders is a participant in the Village Bank Supplemental Executive Retirement Plan with a potential annual benefit of \$25,000 for 15 years and each is entitled to participate in benefit plans available to senior executives of the Company and the Bank. Under the terms of their agreements, each of Messrs. Whitehurst and Sanders is entitled to severance payments equal to his respective salary for the balance of the term of his agreement if he is terminated without "Cause" or if he resigns with "Good Reason", each as defined in his respective agreement. In addition, for a period of six months after termination or resignation under such circumstances, he will continue to receive benefits under all other employee benefit plans or programs in which he was participating prior to termination or resignation, or, if continued participation is not possible, an equivalent value.

Mr. Winfree's employment agreement with the Company and the Bank was entered into on May 1, 2001 with an initial term of three years. Under the agreement, Mr. Winfree agreed to perform the services and duties appropriate to his positions at that time of President and Chief Executive Officer of the Company and the Bank. Such agreement was effective until September 28, 2013, at which time Mr. Winfree stepped down as President and entered into a new employment agreement covering the period from September 28, 2013 to September 27, 2014. His new agreement was effective until his retirement from his position as Chief Executive Officer on February 28, 2014.

The Company and the Bank are parties to written agreements with the Federal Reserve, the FDIC and the Bureau of Financial Institutions of the Virginia State Corporation Commission that prohibit the Company and the Bank from making severance payments to employees. As a result, the Company and the Bank are prohibited from paying the severance and change in control payments described above while such regulatory agreements remain in place.

TARP Standards on Executive Compensation

In May 2009, the Company sold a series of its preferred stock to the U.S. Treasury under the TARP Capital Purchase Program. As a result of this transaction, the Company became subject to certain executive compensation and corporate governance requirements applicable to its senior executive officers under section 111 of Emergency Economic Stabilization Act of 2008 ("EESA"), as implemented by U.S. Treasury regulations. In addition, each of Messrs. Sanders, Whitehurst and Winfree executed consent letter agreements with the U.S. Treasury pursuant to which each specifically agreed to be subject to the executive compensation and corporate governance requirements under EESA and waived his right to certain benefits included in his respective employment agreement. Those restrictions were applicable until the Company, at the direction of the U.S. Treasury, had its preferred stock sold at auction to third party purchasers effective on November 19, 2013. At consummation of the sale of the preferred stock, the U.S. Treasury's oversight and regulation of the Company's executive compensation ceased to exist.

Certain Relationships and Related Transactions

Some of the directors and officers of the Company are customers of the Company and the Bank, and the Company and the Bank have had banking transactions in the ordinary course of business with directors, officers, and their associates, on substantially the same terms, including interest rates, collateral and repayment terms on loans, as those prevailing at the same time for comparable transactions with persons not related to the Company. All outstanding loans to such officers and directors and their associates are current as to principal and interest and do not involve more than the normal risk of collectability or present other unfavorable features. None of such outstanding loans are classified as non-accrual, past due, restructured or potential problems. As of December 31, 2013, all loans to directors, executive officers and their affiliates totaled approximately \$7,929,000 or approximately 43% of shareholders' equity at such date.

There are no legal proceedings to which any director, officer or associate is a party that would be material and adverse to the Company.

PROPOSAL TWO

ADVISORY (NON-BINDING) VOTE TO APPROVE EXECUTIVE COMPENSATION

As part of implementing the “say on pay” requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act, pursuant to applicable rules, the SEC requires a separate and non-binding shareholder vote to approve the compensation of the named executive officers in this Proxy Statement. This proposal, commonly known as a “say on pay” proposal, gives shareholders the opportunity to endorse or not endorse a company’s executive pay program. Accordingly, shareholders of the Company are being asked to approve the following resolution:

“RESOLVED, that the shareholders of the Company approve the compensation of executive officers as disclosed in this Proxy Statement pursuant to the rules of the Securities and Exchange Commission.”

As stated above, this is an advisory vote only. Approval of the proposed resolution requires the affirmative vote of a majority of the shares present at the Annual Meeting and entitled to vote.

The board of directors believes that the Company’s compensation policies and procedures are strongly aligned with the long-term interests of its shareholders. Because your vote is advisory, it will not be binding upon the board of directors. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR APPROVAL OF PROPOSAL TWO-ADVISORY (NON-BINDING) VOTE TO APPROVE EXECUTIVE COMPENSATION

PROPOSAL THREE

APPROVAL OF AN AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION TO AUTHORIZE ITS BOARD OF DIRECTORS TO EFFECT A REVERSE STOCK SPLIT OF ITS COMMON STOCK

On February 25, 2014, the board of directors adopted resolutions: (1) declaring that an amendment to the Company's Articles of Incorporation to effect a reverse stock split, as described below, was advisable and (2) directing that a proposal to approve the reverse stock split be submitted to the shareholders for their approval at the Annual Meeting (the "Reverse Stock Split Proposal").

The Reverse Stock Split Proposal

The form of the proposed amendment to the Company's Articles of Incorporation to effect the reverse stock split is attached to this Proxy Statement as Appendix A. Under the terms of the Reverse Stock Split Proposal, the board of directors will be given the authority to determine whether and when to implement the proposed amendment. If and when a reverse stock split is implemented, the board of directors will determine some amount, between 5 to 20 shares of issued and outstanding common stock of the Company ("Old Common Stock") which shall automatically be reclassified and converted into one share of common stock (the "Reverse Stock Split"). If the Reverse Stock Split Proposal is approved by our shareholders, the board of directors will determine, prior to the filing of the amendment with the Virginia State Corporation Commission, whether such an action is in the best interest of the shareholders, and if so, when the Reverse Stock Split shall occur and the ratio for such split. The board of directors will consider, among other things, the market price and liquidity of our common stock prior to implementing the Reverse Stock Split.

No fractional shares of common stock will be issued in connection with any Reverse Stock Split. To avoid the existence of fractional shares of our common stock, the number of shares issued to each shareholder will be rounded up to the nearest whole number, if, as a result of the Reverse Stock Split, the number of shares owned by any shareholder would not be a whole number.

Background and Reasons for the Proposal

The board of directors is submitting the Reverse Stock Split Proposal to our shareholders for approval with the primary intent of increasing the market price of our common stock. If approved by the shareholders and implemented by the board of directors, the Reverse Stock Split should also enhance liquidity. Accordingly, we believe that

providing the board of directors with the ability to effect the Reverse Stock Split is in the Company's and our shareholders' best interests.

We believe that the Reverse Stock Split, if implemented, will make our common stock more attractive to a broader range of institutional and other investors, as we believe that the current market price of our common stock may affect its acceptability to certain institutional investors, professional investors and other members of the investing public. Many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. In addition, some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. Moreover, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of common stock can result in individual shareholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. We believe that, if approved and implemented by our board of directors, a Reverse Stock Split will make our common stock a more attractive and cost effective investment for many investors, which will enhance the liquidity of the holders of our common stock.

Reducing the number of outstanding shares of our common stock through the Reverse Stock Split is intended, absent other factors, to increase the per share market price of our common stock. However, other factors, such as our financial results, market conditions and the market perception of our business may adversely affect the market price of our common stock. As a result, there can be no assurance that the Reverse Stock Split, if implemented, will result in the intended benefits described above, that the market price of our common stock will increase following the Reverse Stock Split or that the market price of our common stock will not decrease in the future. Additionally, we cannot assure you that the market price per share of our common stock after a Reverse Stock Split will increase in proportion to the reduction in the number of shares of our common stock outstanding before the Reverse Stock Split. Accordingly, the total market capitalization of our common stock after the Reverse Stock Split may be lower than the total market capitalization before the Reverse Stock Split. The Company does not have any plans to issue any new shares of its common stock as part of the Reverse Stock Split.

If the shareholders approve the Reverse Stock Split Proposal at the Annual Meeting, the board of directors will have authority to implement the Reverse Stock Split until the close of business on December 31, 2014. Following such date, the board of directors will cease to have authority to implement the Reverse Stock Split in connection with such approval.

Board Discretion to Implement the Reverse Stock Split

If the proposed amendment is approved by our shareholders, it will be implemented, if at all, only upon a determination by our board of directors that a reverse stock split, at a ratio determined by the board of directors within the range of 5 to 20 shares of Old Common Stock for each new share of common stock, is in the best interests of our shareholders. The board of directors' determination as to whether such a split will be implemented and, if so, the effective time and the ratio of such split, will be based upon several factors, including existing and expected marketability and liquidity of our common stock, prevailing market conditions and the likely effect on the market price of our common stock. If our board of directors determines to implement the Reverse Stock Split, the board of directors will consider various factors in selecting the ratio, including the overall market conditions at the time and the recent trading history of our common stock.

Effect of the Reverse Stock Split on Holders of Outstanding Common Stock

In connection with the Reverse Stock Split, 5 to 20 shares of Old Common Stock will be combined into one new share of common stock. The number of shares of common stock issued and outstanding will therefore be reduced. The table below illustrates the effect of the Reverse Stock Split on the total number of common stock shares, within the authorized range of 5 to 20, expected to be outstanding after the completion of the Reverse Stock Split (excluding the effect of fractional shares). As of the date hereof, there are 5,338,294 shares of common stock outstanding.

Reverse Stock Split Ratio	Approximate Number of Outstanding Shares of Common Stock Following the Reverse Stock Split
1 for 5	1,067,659
1 for 6	889,716
1 for 7	762,614
1 for 8	667,287
1 for 9	593,144
1 for 10	533,830
1 for 11	485,300
1 for 12	444,858
1 for 13	410,638
1 for 14	381,307
1 for 15	355,886
1 for 16	333,643
1 for 17	314,017
1 for 18	296,572
1 for 19	280,963
1 for 20	266,915

If implemented, the Reverse Stock Split will affect all holders of our common stock uniformly and will not affect any stockholder's percentage ownership interest in the Company. In addition, the Reverse Stock Split will not affect any stockholder's proportionate voting power.

The Reverse Stock Split may result in some shareholders owning "odd lots" of less than 100 shares of common stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in "round lots" of even multiples of 100 shares.

If the Reverse Stock Split is implemented, after the effective time, our common stock will have a new Committee on Uniform Securities Identification Procedures ("CUSIP") number, which is a number used to identify our equity securities, and stock certificates with the older CUSIP number will need to be exchanged for stock certificates with the new CUSIP number by following the procedures described below.

After the effective time, we will continue to be subject to the periodic reporting and other requirements of the Exchange Act. Our common stock will continue to be listed on the NASDAQ Capital Market under the symbol "VBFC," or such other trading symbol as may be applicable at the time.

Beneficial Holders of Common Stock (i.e., shareholders who hold shares in street name)

If the Reverse Stock Split is implemented, we intend to treat shares held by shareholders through a bank, broker, custodian or other nominee in the same manner as registered shareholders whose shares are registered in their names. Banks, brokers, custodians or other nominees will be instructed to effect the Reverse Stock Split for their beneficial holders holding our common stock in street name. However, these banks, brokers, custodians or other nominees may have different procedures than registered shareholders for processing the Reverse Stock Split. Shareholders who hold shares of our common stock with a bank, broker, custodian or other nominee and who have any questions in this regard are encouraged to contact their banks, brokers, custodians or other nominees.

Holders of Certificated Shares of Common Stock

If the board of directors implements the Reverse Stock Split, shareholders holding shares of our common stock in certificated form will be sent a transmittal letter by the transfer agent after the effective time. The letter of transmittal will contain instructions on how a stockholder should surrender his, her or its certificate(s) representing shares of Old Common Stock (the "Old Certificates") to the transfer agent in exchange for certificates representing the appropriate number of whole shares of post-Reverse Stock Split common stock (the "New Certificates"). No New Certificates will be issued to a stockholder until such stockholder has surrendered all Old Certificates, together with a properly completed and executed letter of transmittal, to the transfer agent. No stockholder will be required to pay a transfer or other fee to exchange his, her or its Old Certificates. Shareholders will then receive New Certificate(s) representing the number of whole shares of common stock that they are entitled to as a result of the Reverse Stock Split. Until surrendered, we will deem outstanding Old Certificates held by shareholders to be cancelled and only to represent the number of whole shares of post-Reverse Stock Split common stock to which these shareholders are entitled. Any Old Certificates submitted for exchange, whether because of a sale, transfer or other disposition of stock, will automatically be exchanged for New Certificates. If an Old Certificate has a restrictive legend on the back of the Old Certificate, the New Certificate will be issued with the same restrictive legend that is on the back of the Old Certificate.

SHAREHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY STOCK CERTIFICATE(S) UNTIL REQUESTED TO DO SO.

Fractional Shares

No fractional shares of common stock will be issued in connection with any Reverse Stock Split. To avoid the existence of fractional shares of our common stock, the number of shares issued to each shareholder will be rounded up to the nearest whole number, if, as a result of the Reverse Stock Split, the number of shares owned by any shareholder would not be a whole number.

Effect of the Reverse Stock Split on Options, Restricted Stock Awards and Units, Warrants, and Convertible or Exchangeable Securities

Based upon the Reverse Stock Split ratio, proportionate adjustments are generally required to be made to the per share exercise price and the number of shares issuable upon the exercise or conversion of all outstanding options, warrants (including the warrant to purchase common stock held by the U.S. Treasury), convertible or exchangeable securities entitling the holders to purchase, exchange for, or convert into, shares of common stock. This would result in approximately the same aggregate price being required to be paid under such options, warrants, convertible or

exchangeable securities upon exercise, and approximately the same value of shares of common stock being delivered upon such exercise, exchange or conversion, immediately following the Reverse Stock Split as was the case immediately preceding the Reverse Stock Split. The number of shares deliverable upon settlement or vesting of restricted stock awards and units will be similarly adjusted. The number of shares reserved for issuance under these securities will be reduced proportionately based upon the Reverse Stock Split ratio determined by the board of directors.

Accounting Matters

As of the effective time, the stated capital attributable to common stock on the Company's balance sheet will be reduced proportionately based on the Reverse Stock Split ratio, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. Reported per share net income or loss will be higher because there will be fewer shares of common stock outstanding.

Certain Material Federal Income Tax Consequences of the Reverse Stock Split

The following summary describes certain material U.S. federal income tax consequences of the Reverse Stock Split to holders of our common stock.

Unless otherwise specifically indicated herein, this summary addresses the tax consequences only to a beneficial owner of our common stock that is a citizen or individual resident of the United States, a corporation organized in or under the laws of the United States or any state thereof or the District of Columbia or otherwise subject to U.S. federal income taxation on a net income basis in respect of our common stock (a “U.S. holder”). This summary does not address all of the tax consequences that may be relevant to any particular investor, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of taxpayers or that are generally assumed to be known by investors. This summary also does not address all of the tax consequences that may be relevant to (i) persons that may be subject to special treatment under U.S. federal income tax law, such as banks, insurance companies, thrift institutions, regulated investment companies, real estate investment trusts, tax-exempt organizations, U.S. expatriates, persons subject to the alternative minimum tax, traders in securities that elect to mark to market and dealers in securities or currencies, (ii) persons that hold our common stock as part of a position in a “straddle” or as part of a “hedging,” “conversion” or other integrated investment transaction for federal income tax purposes, or (iii) persons that do not hold our common stock as a “capital asset” (generally, property held for investment).

This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, U.S. Treasury regulations, administrative rulings and judicial authority, all as in effect as of the date hereof. Subsequent developments in U.S. federal income tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the U.S. federal income tax consequences of the Reverse Stock Split.

EACH SHAREHOLDER SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE, LOCAL, AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE REVERSE STOCK SPLIT.

If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our common stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships that hold our common stock, and partners in such partnerships, should consult their own tax advisors regarding the U.S. federal income tax consequences of the Reverse Stock Split.

Recapitalization Treatment

The Reverse Stock Split should be treated as a recapitalization for U.S. federal income tax purposes. Therefore, no gain or loss will be recognized upon the Reverse Stock Split. Accordingly, the aggregate tax basis in the common stock received pursuant to the Reverse Stock Split should equal the aggregate tax basis in the common stock surrendered, and the holding period for the common stock received should include the holding period for the common stock surrendered.

No Appraisal Rights

Under Virginia law and our Articles of Incorporation, holders of our common stock will not be entitled to appraisal rights with respect to the Reverse Stock Split.

Vote Required

The affirmative vote of a majority of the holders of shares of common stock entitled to vote at the Annual Meeting is required to approve the Reverse Stock Split Proposal. Abstentions and broker non-votes, if any, will have the effect of a vote against the Reverse Stock Split Proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR APPROVAL OF PROPOSAL THREE-APPROVAL OF AN AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION TO AUTHORIZE ITS BOARD OF DIRECTORS TO EFFECT A REVERSE STOCK SPLIT OF ITS COMMON STOCK

PROPOSAL FOUR

APPROVAL OF AN AMENDMENT TO THE VILLAGE BANK AND TRUST FINANCIAL CORP. INCENTIVE PLAN

The Proposal

The board of directors has approved, and recommends that the Company's shareholders approve, an amendment to the Village Bank and Trust Financial Corp. Incentive Plan (the "Plan"). The amendment increases the number of shares of common stock reserved for issuance under the Plan from 555,000 to 780,000 (an increase of 225,000 shares). There are no other changes to the Plan.

The Company's experience with stock options and other stock-based incentives has convinced the board of directors of their important role in recruiting and retaining officers, directors and employees with ability and initiative and in encouraging such persons to have a greater financial investment in the Company. The board of directors approved the amendment to the Plan on February 25, 2014.

The complete text of the Plan, as proposed to be amended, is attached to this Proxy Statement as Appendix B. The following summary provides a general description of the principal features of the Plan and is qualified in its entirety by reference to Appendix B.

General Information

The board of directors administers the Plan. The Plan authorizes the board of directors to grant one or more of the following awards to directors, officers, key employees, consultants and advisors to the Company and its subsidiaries who are designated by the board:

stock options;
stock appreciation rights ("SARs");
stock awards, which include awards of both common stock and restricted stock; and
stock units.

If the shareholders approve the amendment to the Plan, the Company will be authorized to issue under the Plan up to 780,000 shares of common stock. Generally, if an award is forfeited, expires or terminates, the shares allocated to that award under the Plan may be reallocated to new awards under the Plan. Shares surrendered pursuant to the exercise of a stock option or other award or in satisfaction of tax withholding requirements under the Plan may also be reallocated to other awards.

The Plan provides that, if there is a stock split, stock dividend or other event that affects the Company's capitalization, appropriate adjustments will be made in the number of shares that may be issued under the Plan and in the number of shares and price of all outstanding grants and awards made before such event. If the Reverse Stock Split Proposal is approved by shareholders and the board of directors authorizes a Reverse Stock Split, the maximum number of shares as to which awards may be issued under the Plan and the terms of outstanding awards shall be proportionately adjusted.

As of March 21, 2014, the Company has made grants and awards as to 170,651 shares of common stock reserved for issuance under the Plan, issued 23,701 shares of common stock for restricted stock awards and issued 71,385 shares of common stock for options that have been exercised under the Plan. These amounts reflect shares that have been forfeited or canceled in accordance with the terms of a grant or award or have been surrendered or withheld in satisfaction of tax withholding requirements. As a result, 289,263 shares of common stock remain available for grants and awards under the Plan. On March 21, 2014, the closing price for a share of the Company's common stock on the Nasdaq Capital Market was \$1.42.

The following table sets forth information as of March 21, 2014, relating to all outstanding grants of stock options under the Plan to (i) each of the named executive officers, (ii) all current executive officers as a group, (iii) all current directors who are not executive officers as a group and (iv) all employees, including all current officers who are not executive officers, as a group. The table does not include awards of common stock and restricted stock.

Outstanding Grants of Stock Options

	Number of Securities Underlying Options Granted	Exercise or Base Price (\$/Share)	Value of Unexercised In-the-Money Options at March 21, 2014
Thomas W. Winfree	-	\$ -	\$ -
William G. Foster	5,000	1.00	2,100
C. Harril Whitehurst, Jr.	5,000	1.61	-
Raymond E. Sanders	9,000	1.59	-
Executive Group	19,000	1.44	-
Non-Executive Director Group	57,222	9.22	-
Non-Executive Officer Employee Group	22,685	8.61	-

(1) The value of in-the-money-options was calculated by determining the difference between the closing price of a share of Common Stock as reported on the Nasdaq Capital Market on March 21, 2014 (\$1.42) and the exercise price of the options.

The Company intends to continue to grant awards under the Plan to directors, eligible officers and key employees. No determination has been made as to which of the persons eligible to participate in the Plan will receive awards under the Plan in the future and, therefore, the future benefits to be allocated to any individual or to various groups of eligible participants are not presently determinable.

Grants and Awards under the Plan

The principal features of awards under the Plan are summarized below.

Stock Options

The Plan permits the grant of incentive stock options and non-qualified stock options. The exercise price for options will not be less than the fair market value of a share of common stock on the date of grant. Other than in connection with a corporate recapitalization, the option price may not be reduced after the date of grant. The period in which an

option may be exercised is determined by the board on the date of grant, but may not exceed 10 years for an incentive stock option. Payment of the option exercise price may be in cash, or in a cash equivalent acceptable to the administrator. If the agreement provides, payment may be made by directing the Company to withhold shares of common stock upon exercise, or by surrendering already owned shares. To the extent permitted under applicable laws and regulations, a “cashless exercise” may also be used.

Stock Appreciation Rights

SARs may be granted either independently or in combination with underlying stock options. Each SAR will entitle the holder upon exercise to receive the excess of the fair market value of a share of common stock at the time of exercise over the SAR’s initial value, which cannot be less than the fair market value of a share of common stock on the date of grant of the SAR. Other than in connection with a corporate recapitalization, the initial value of any SAR may not be reduced after the date of grant. At the discretion of the board of directors, all or part of the payment in respect of a SAR may be in cash, shares of common stock or a combination thereof. The maximum period in which a SAR may be exercised is 10 years from the date of its grant.

Stock Awards

The Company may also grant stock awards that entitle the participant to receive shares of common stock. A participant's rights in the stock award may be forfeitable or otherwise restricted for a period of time or subject to conditions set forth in the grant agreement, such as continued employment or achievement of performance objectives.

Stock Units

The board of directors may also award stock units, which is an award stated with reference to a number of shares of common stock. The award may entitle the recipient to receive, upon satisfaction of performance objectives or other conditions set forth in the award agreement, cash, shares of common stock or a combination of cash and common stock.

Federal Income Tax Consequences

The principal federal income tax consequences to participants and to the Company of grants and awards under the Plan are summarized below.

Non-Qualified Stock Options

Non-qualified stock options granted under the Plan are not taxable to an optionee at grant but result in taxation at exercise, at which time the individual will recognize ordinary income in an amount equal to the difference between the option exercise price and the fair market value of the common stock on the exercise date. The Company will be entitled to deduct a corresponding amount as a business expense in the year the optionee recognizes this income.

Incentive Stock Options

525 Excess tax benefit from stock-based payment arrangements	—	1,357	—	—	1,357	Minimum pension liability adjustment, net of tax	—	—	—	233	233	Cash dividends declared	—	—	(4,362)	—	(4,362)	Net
Income	—	—	14,990	—	14,990	Balance at June 30, 2014	\$7,371	\$15,386	\$	145,234	\$(1,256)	\$166,735	Issuance of					

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common stock:	Stock options exercised, net	83	707	—	—	790	Unrealized loss on available for sale
investments, net of tax	—	—	—	(147)	(147)	Long-term incentive compensation	26
compensation	—	607	—	—	607	Excess tax benefit from stock-based payment arrangements	—
pension liability adjustment, net of tax	—	—	—	(333)	(333)	Cash dividends declared	—
income	—	—	22,299	—	22,299	Balance at June 30, 2015	\$7,480
							\$18,827
							\$162,176
							\$(1,736)
							\$186,747

See accompanying Notes to Consolidated Financial Statements.

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****(Amounts in thousands)**

	FOR THE YEARS ENDED		
	JUNE 30,		
	2015	2014	2013
OPERATING ACTIVITIES:			
Net income	\$22,299	\$14,990	\$13,151
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	4,945	4,197	3,803
Deferred income taxes	605	(138)	414
Stock-based compensation expense	1,943	1,290	1,051
Excess tax benefit from stock-based payment arrangements	(817)	(1,357)	(182)
Provision for losses on accounts receivable	30	6	(215)
Other non-cash, net	(28)	42	69
Gain on disposition of capital assets	(119)	(90)	(18)
Gain on life insurance policies	(745)	—	—
Changes in operating assets and liabilities:			
Trade receivables	(6,596)	(2,467)	(2,260)
Inventories	(15,902)	(5,523)	(9,728)
Other current assets	(3,882)	(278)	58
Other assets	(1,024)	(163)	(307)
Accounts payable - trade	2,083	2,117	1,082
Accrued liabilities	201	2,986	(138)
Other long-term liabilities	(187)	265	(665)
Supplemental retirement plans	463	360	(210)
Net cash provided by operating activities	3,269	16,237	5,905
INVESTING ACTIVITIES:			
Purchases of investments	(1,955)	(5,537)	(1,086)
Proceeds from sales of investments	1,611	5,209	1,273
Proceeds from sale of capital assets	155	98	21
Proceeds from life insurance policies	5,053	—	—
Capital expenditures	(37,423)	(4,187)	(6,225)
Net cash used in investing activities	(32,559)	(4,417)	(6,017)
FINANCING ACTIVITIES:			
Dividends paid	(5,115)	(4,323)	(4,213)
Proceeds from issuance of common stock	790	2,388	1,107
Excess tax benefit from stock-based payment arrangements	817	1,357	182
Proceeds from short-term notes payable	11,904	—	—
Net cash provided by (used in) financing activities	8,396	(578)	(2,924)
(Decrease) increase in cash	(20,894)	11,242	(3,036)
Cash at beginning of year	22,176	10,934	13,970
Cash at end of year	\$1,282	\$22,176	\$10,934

**FOR THE YEARS
ENDED JUNE 30,
2015 2014 2013**

SUPPLEMENTAL INFORMATION

Income taxes paid	\$13,920	\$6,880	\$7,250
Capital expenditures in accounts payable	\$130	\$35	\$261

See accompanying Notes to Consolidated Financial Statements.

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS – Flexsteel Industries, Inc. and subsidiaries (the “Company”) is one of the oldest and largest manufacturer, importer and marketer of residential and commercial upholstered and wooden furniture products in the United States. The Company’s furniture products include a broad line of quality upholstered and wooden furniture for residential and commercial use. Product offerings include a wide variety of upholstered and wood furniture such as sofas, loveseats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs, bedroom furniture and home and commercial office furniture.

PRINCIPLES OF CONSOLIDATION – the consolidated financial statements include the accounts of Flexsteel Industries, Inc. and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

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 amounts reported in the consolidated financial statements and accompanying notes. Ultimate results could differ from those estimates.

FAIR VALUE – the Company’s cash, accounts receivable, other current assets, accounts payable, notes payable and certain accrued liabilities are carried at amounts which reasonably approximate their fair value due to their short-term nature. Generally accepted accounting principles on fair value measurement for certain financial assets and liabilities require that each asset and liability carried at fair value be classified into one of the following categories: Level 1: Quoted market prices in active markets for identical assets and liabilities; Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data; or Level 3: Unobservable inputs that are not corroborated by market data. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

ACCOUNTS RECEIVABLE ALLOWANCES – the Company establishes accounts receivable allowances to reduce trade accounts receivable to an amount that reasonably approximates their net realizable value. The Company’s accounts receivable allowances consist of an allowance for doubtful accounts which is established through review of open accounts, historical collection, and historical write-off amounts and an allowance for estimated returns on sales

of the Company's products which is based on historical product returns, as well as existing product return authorizations. The Company records a provision against revenue for estimated returns on sales of our products in the same period that the related revenues are recognized. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the consolidated financial statements.

INVENTORIES – are stated at the lower of cost or net realizable value. Steel products are valued on the last-in, first-out (“LIFO”) method. All other inventories are valued on the first-in, first-out (“FIFO”) method.

PROPERTY, PLANT AND EQUIPMENT – is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. These costs are amortized using the straight-line method over the useful lives.

VALUATION OF LONG-LIVED ASSETS – the Company periodically reviews the carrying value of long-lived assets and estimated depreciable or amortizable lives for continued appropriateness. This review is based upon projections of anticipated future cash flows and is performed whenever events or changes in circumstances indicate that asset carrying values may not be recoverable or that the estimated depreciable or amortizable lives may have changed. No impairments of long-lived assets or changes in depreciable or amortizable lives were incurred during fiscal year 2015, 2014 and 2013.

WARRANTY – the Company estimates the amount of warranty claims on sold product that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the Company based on product performance.

REVENUE RECOGNITION – is when both product ownership and the risk of loss have transferred to the customer, collectability is reasonably assured, and the Company has no remaining obligations. The Company's ordering process creates persuasive evidence of the sale arrangement and the sales price is determined. The delivery of the goods to the customer completes the earnings process. Net sales consist of product sales and related delivery charge revenue, net of adjustments for returns and allowances. Shipping and handling costs are included in cost of goods sold.

ADVERTISING COSTS – are charged to selling, general and administrative expense in the periods incurred. The Company conducts no direct-response advertising programs and there are no assets related to advertising recorded on the consolidated balance sheets. Advertising expenditures, primarily shared customer advertising in which an identifiable benefit is received and national trade-advertising programs, were approximately \$6.9 million, \$6.1 million and \$5.6 million in fiscal 2015, 2014 and 2013, respectively.

DESIGN, RESEARCH AND DEVELOPMENT COSTS – are charged to selling, general and administrative expense in the periods incurred. Expenditures for design, research and development costs were approximately \$4.1 million, \$2.8 million and \$2.5 million in fiscal 2015, 2014 and 2013, respectively.

INSURANCE – the Company is self-insured for health care and most workers’ compensation up to predetermined amounts above which third party insurance applies. The Company purchases specific stop-loss insurance for individual health care claims in excess of \$150,000 per plan year. For workers’ compensation the Company retains the first \$450,000 per claim and purchases excess coverage up to the statutory limits for amounts in excess of the retention limit. Losses are accrued based upon the Company’s estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company experience. The Company records these insurance accruals within accrued liabilities – insurance on the consolidated balance sheets.

INCOME TAXES – the Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company recognizes in its financial statements the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

EARNINGS PER SHARE (EPS) – basic earnings per share of common stock is based on the weighted-average number of common shares outstanding during each fiscal year. Diluted earnings per share of common stock includes the dilutive effect of potential common shares outstanding. The Company’s potential common shares outstanding are stock options and shares associated with the long-term management incentive compensation plan. The Company calculates the dilutive effect of outstanding options using the treasury stock method. Anti-dilutive shares are not included in the computation of diluted EPS when their exercise price was greater than the average closing market price of the common shares. The Company calculates the dilutive effect of shares related to the long-term management incentive compensation plan based on the number of shares, if any, that would be issuable if the end of the fiscal year were the end of the contingency period.

In computing EPS for the fiscal years ended 2015, 2014 and 2013, net income as reported for each respective period is divided by the fully diluted weighted average number of shares outstanding:

(in thousands)	June 30,		
	2015	2014	2013
Basic shares	7,423	7,231	7,041
Potential common shares:			
Stock options	255	254	253

Long-term incentive plan	30	26	32
	285	280	285
Diluted shares	7,708	7,511	7,326
Anti-dilutive shares	—	—	10

STOCK-BASED COMPENSATION – the Company recognizes compensation expense related to the cost of employee services received in exchange for Company equity interests based on the award’s fair value at the date of grant. See Note 8 Stock-Based Compensation.

ACCOUNTING DEVELOPMENTS – In May 2014, the Financial Accounting Standards Board issued *Revenue from Contracts with Customers, Topic 606 (Accounting Standards Update (ASU) No. 2014-09)*, which provides a framework for the recognition of revenue, with the objective that recognized revenues properly reflect amounts an entity is entitled to receive in exchange for goods and services. This guidance, which includes additional disclosure requirements regarding revenue, cash flows and obligations related to contracts with customers, was originally to be effective for the Company beginning in fiscal year 2018. In July 2015, the FASB confirmed a one year deferral of the effective date of the new revenue standard which also allows early adoption as of the original effective date. The updated guidance will be effective for the Company’s first quarter of 2019. The Company is currently evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements, but believes there will be no material impact, if any.

2. INVENTORIES

Inventories valued on a LIFO basis (steel) would have been approximately \$1.6 million and \$1.4 million higher at June 30, 2015 and 2014, respectively, if they had been valued on a FIFO basis. At June 30, 2015 and 2014 the total value of LIFO inventory was \$2.6 million and \$2.7 million, respectively. There was no material liquidation of LIFO inventory in 2015, 2014, or 2013. A comparison of inventories is as follows:

(in thousands)	June 30,	
	2015	2014
Raw materials	\$12,663	\$11,603
Work in process and finished parts	5,772	5,470
Finished goods	95,407	80,867
Total	\$113,842	\$97,940

3. PROPERTY, PLANT AND EQUIPMENT

(in thousands)	Estimated	June 30,	
	Life (Years)	2015	2014
Land		\$7,654	\$4,460
Buildings and improvements	5-39	72,684	49,436
Machinery and equipment	3-7	32,263	27,460
Delivery equipment	3-5	20,097	19,556
Furniture and fixtures	3-7	8,939	6,293
Total		141,637	107,205
Less accumulated depreciation		(76,867)	(75,305)
Net		\$64,770	\$31,900

4. OTHER NONCURRENT ASSETS

(in thousands)	June 30,	
	2015	2014
Cash value of life insurance	\$3,434	\$7,529
Rabbi Trust assets (see Note 9)	2,404	3,095
Other	919	109
Total	\$6,757	\$10,733

5. ACCRUED LIABILITIES – OTHER

(in thousands)	June 30,	
	2015	2014
Dividends	\$1,346	\$1,106
Income taxes	—	737
Advertising	3,661	2,706
Warranty	1,010	1,020
Supplemental retirement plans - current	1,208	693
Other	1,623	1,632
Total	\$8,848	\$7,894

6. CREDIT ARRANGEMENTS

The Company maintains a credit agreement which was amended on June 29, 2015, that provides short-term working capital financing up to \$30.0 million with interest of LIBOR plus 1% (1.19% at June 30, 2015), including up to \$4.0 million of letters of credit. The amendment decreased the borrowing availability from \$65.0 to \$30.0 million. Letters of credit outstanding at June 30, 2015 totaled \$2.9 million. As of June 30, 2015, the Company utilized \$10.6 million of borrowing availability under the credit facility, other than the aforementioned letters of credit, leaving borrowing availability of \$16.5 million. The credit agreement expires December 31, 2016. At June 30, 2015, the Company was in compliance with all of the financial covenants contained in the credit agreement.

An officer of the Company is a director at a bank where the Company maintains an unsecured \$10.0 million line of credit, with interest at prime minus 2% (1.25% at June 30, 2015), and where its routine banking transactions are processed. As of June 30, 2015, the Company utilized borrowing availability during the year and \$1.3 million was outstanding on the line of credit at June 30, 2015. In addition, the supplemental retirement plans assets, held in a Rabbi Trust, of \$3.5 million are administered by this bank's trust department. The Company receives no special services or pricing on the services performed by the bank due to the directorship of this officer.

7. INCOME TAXES

In determining the provision for income taxes, the Company uses an estimated annual effective tax rate that is based on the annual income, statutory tax rates and permanent differences between book and tax. This includes recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns to the extent pervasive evidence exists that they will be realized in future periods. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which are expected to be in effect in the years in which the temporary differences are expected to reverse. In accordance with the Company's income tax policy, significant or unusual items are separately recognized when they

occur.

The components of the gross liabilities related to unrecognized tax benefits and the related deferred tax assets are as follows:

(in thousands)	June 30,	
	2015	2014
Gross unrecognized tax benefits	\$1,580	\$1,290
Accrued interest and penalties	610	490
Gross liabilities related to unrecognized tax benefits	\$2,190	\$1,780
Deferred tax assets	\$640	\$520

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in thousands)	2015	2014	2013
Balance at July 1	\$1,290	\$1,085	\$1,000
Additions based on tax positions related to the current year	390	325	265
Additions for tax positions of prior years	—	—	100
Reductions for tax positions of prior years	(100)	(120)	(280)
Balance at June 30	\$1,580	\$1,290	\$1,085

The Company records interest and penalties related to income taxes as income tax expense in the consolidated statements of income. The Company does not expect that there will be any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The income tax provision is as follows for the years ended June 30:

(in thousands)	2015	2014	2013
Federal- current	\$11,725	\$8,395	\$6,750
State - current	930	553	566
Deferred	605	(138)	414
Total	\$13,260	\$8,810	\$7,730

A reconciliation between the U.S. federal statutory tax rate and the effective tax rate is as follows for the years ended June 30:

	2015	2014	2013
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal effect	2.6	2.2	2.6
Other	(0.3)	(0.2)	(0.6)
Effective tax rate	37.3%	37.0%	37.0%

The effective tax rate for the fiscal year ended June 30, 2015 was 37.3% and 37.0% for fiscal years ended June 30, 2014 and 2013.

The primary components of deferred tax assets and (liabilities) are as follows:

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(in thousands)	June 30, 2015		June 30, 2014	
	Current	Long-term	Current	Long-term
Accounts receivable	\$530	\$ —	\$520	\$ —
Inventory	925	—	1,660	—
Self-insurance	595	—	600	—
Compensation and benefits	585	1,240	650	950
Accrued expenses	1,125	—	540	—
Property, plant and equipment	—	(1,225)	—	(740)
Supplemental retirement plans	460	1,110	260	1,290
Other	—	745	—	670
Total	\$4,220	\$ 1,870	\$4,230	\$ 2,170

The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. Generally, tax years 2011–2014 remain open to examination by the Internal Revenue Service or other taxing jurisdictions to which we are subject.

8. STOCK-BASED COMPENSATION

The Company has two stock-based compensation methods available when determining employee compensation.

(1) Long-Term Incentive Compensation Plans

Long-Term Incentive Compensation Plan

The long-term incentive compensation plan provides for shares of common stock to be awarded to officers and key employees based on performance targets set by the Nominating and Compensation Committee of the Board of Directors (the “Committee”). In December 2013, the Company’s shareholders approved 700,000 shares to be issued under the plan. As of June 30, 2015, no shares have been issued. The Committee selected fully-diluted earnings per share as the performance goal for the three-year performance periods July 1, 2013 – June 30, 2016 (2014-2016) and July 1, 2014 – June 30, 2017 (2015-2017). Stock awards will be issued to participants as soon as practicable following the end of the performance periods subject to Committee approval and verification of results. The compensation cost related to the number of shares to be granted under each performance period is fixed on the grant date, which is the date the performance period begins.

The Company recorded plan expenses of \$1.1 million and \$0.5 million for fiscal years ended June 30, 2015 and 2014, respectively. If the target performance goals for 2014-2016 and 2015-2017 would be achieved, the total amount of compensation cost recognized over the requisite service periods would be \$1.1 million and \$1.0 million, respectively.

The aggregate number of shares that could be awarded to key executives if the minimum, target or maximum performance goals are met is as follows:

(in thousands)			
Performance Period	Minimum	Target	Maximum
Fiscal Year 2014 - 2016	17	48	91
Fiscal Year 2015 - 2017	12	31	60

2007 Long-Term Management Incentive Plan (2007 Plan)

The plan provides for shares of common stock and cash to be awarded to officers and key employees based on performance targets set by the Nominating and Compensation Committee of the Board of Directors (the “Committee”). The Company’s shareholders approved 500,000 shares to be issued under the plan. Due to the adoption of the Long-Term Incentive Compensation Plan in December 2013, no additional shares can be awarded under the 2007 Plan. As of June 30, 2015, 215,082 shares have been issued. The Committee selected consolidated operating results for organic net sales growth and fully-diluted earnings per share as the performance goals for the three-year performance period beginning July 1, 2012 and ending on June 30, 2015 (2013-2015). The Committee has also specified that payouts, if any, for awards earned in these performance periods will be 60% stock and 40% cash. Awards will be paid to participants as soon as practicable following the end of the performance periods subject to Committee approval and verification of results. The compensation cost related to the number of shares to be granted under each performance period is fixed on the grant date, which is the date the performance period begins. The compensation cost related to the cash portion of the award is re-measured based on the equity award’s estimated fair value at the end of each reporting period. The accrual is based on the probable outcomes of the performance conditions. The short-term portion of the recorded cash award payable is classified within current liabilities, payroll and related items, and the long-term portion of the recorded cash award payable is classified within other long-term liabilities in the consolidated balance sheets. As of June 30, 2015, the Company has recorded the cash-portion of awards payable of \$0.7 million within current liabilities. For fiscal year ended June 30, 2014, the Company recorded the cash-portion of awards payable of \$0.6 million within current liabilities and \$0.4 million within long-term liabilities. For the fiscal years ended June 30, 2015, 2014 and 2013, the Company recorded expense of \$0.6 million, \$0.9 million and \$1.2 million, respectively.

For the fiscal year 2013-2015 awards, based on the Company’s performance during that period, \$1.2 million of compensation expense has been recognized over the requisite service periods.

The aggregate number of shares and cash that could be awarded to key executives if the minimum, target or maximum performance goals are met is as follows:

(in thousands)	Minimum	Target	Maximum
Performance Period	ShareCash	ShareCash	ShareCash
Fiscal Year 2013 - 2015	9 \$251	24 \$686	39 \$1,133

(2)

Stock Plans

Omnibus Stock Plan

The Omnibus Stock Plan is for key employees, officers and directors and provides for the granting of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and performance units. In December 2013, the Company's shareholders approved 700,000 shares to be issued under the plan. The options are exercisable up to 10 years from the date of grant. It is the Company's policy to issue new shares upon exercise of stock options. The Company accepts shares of the Company's common stock as payment for the exercise price of options. These shares received as payment are retired upon receipt.

For fiscal years 2015 and 2014, the Company issued options for 48,600 and 57,450 common shares at a weighted average exercise price of \$31.48 and \$27.49 (the fair market value on the date of grant), respectively. The options were immediately available for exercise. For fiscal years ended June 30, 2015 and 2014, the Company recorded expense of \$0.4 million and \$0.4 million, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal year 2015 and 2014, respectively, under this plan; dividend yield of 2.0% and 2.2%; expected volatility of 29.9% and 32.6%; risk-free interest rate of 1.6% and 1.5%; and an expected life of 5 years. The expected volatility and expected life are determined based on historical data. The weighted-average grant date fair value of stock options granted during fiscal year 2015 and 2014 were \$7.33 and \$6.63, respectively. The cash proceeds from stock options exercised were \$0.1 million for fiscal years ended 2015 and 2014. At June 30, 2015, 595,400 shares were available for future grants.

2002, 2006 and 2009 Stock Option Plans

The stock option plans were for key employees, officers and directors and provided for granting incentive and nonqualified stock options. Under the plans, options were granted at an exercise price equal to the fair market value of the underlying common stock at the date of grant and exercisable for up to 10 years. All options were exercisable when granted. Due to the adoption of the Omnibus Stock Plan in December 2013, no additional options can be granted under the 2002, 2006 and 2009 stock option plans.

There were no options granted and no expense was recorded under these Plans during the fiscal years ended June 30, 2015 and June 30, 2014. For fiscal year ended June 30, 2013, the Company issued options for 89,300 common shares at the weighted average exercise price of \$20.31 (the fair market value on the date of grant). The options were immediately available for exercise. The Company recorded compensation expense of \$0.5 million during fiscal year ended June 30, 2013.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal 2013; dividend yield of 2.5%; expected volatility of 35.4%; risk-free interest rate of 0.8%; and an expected life of 5 years, respectively. The expected volatility and expected life are determined based on historical data.

The weighted-average grant date fair value of stock options granted during fiscal year 2013 was \$5.06. The cash proceeds from stock options exercised were \$1.6 million, \$2.3 million and \$1.1 million, respectively, for fiscal years ended 2015, 2014 and 2013. The income tax benefit related to the exercise of stock options was \$0.4 million, \$0.4 million and \$0.2 million for fiscal years ended 2015, 2014 and 2013, respectively.

A summary of the status of the Company's stock option plans as of June 30, 2015, 2014 and 2013 and the changes during the years then ended is presented below:

	Shares (in thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding and exercisable at June 30, 2013	787	\$ 14.71	\$ 7,609
Granted	58	27.49	
Exercised	(292)	15.55	
Canceled	(29)	19.35	
Outstanding and exercisable at June 30, 2014	524	\$ 15.39	\$ 9,403
Granted	49	31.48	
Exercised	(110)	15.52	
Canceled	(6)	16.98	
Outstanding and exercisable at June 30, 2015	457	\$ 17.02	\$ 11,916

The following table summarizes information for options outstanding and exercisable at June 30, 2015:

Range of Prices	Options Outstanding (in thousands)	Weighted Average Remaining Life (Years)	Exercise Price
\$6.81 – 8.55	93	4.0	\$ 7.73
12.35 – 14.40	152	2.9	13.25
17.23 – 22.82	117	6.6	19.06
27.38 – 32.13	95	4.2	29.52
\$6.81 – 32.13	457	4.3	\$ 17.02

9. BENEFIT AND RETIREMENT PLANS

Defined Contribution and Retirement Plans

The Company sponsors various defined contribution retirement plans, which cover substantially all employees, other than employees covered by multi-employer pension plans under collective bargaining agreements. Total pension and retirement plan expense was \$2.0 million, \$1.9 million and \$1.8 million in fiscal years 2015, 2014 and 2013. The amounts include \$0.5 million in fiscal years 2015, 2014 and 2013, for the Company's matching contribution to

retirement savings plans.

Multi-employer Pension Plans

The Company contributes to three multi-employer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be shared by the remaining participating employers.

- If a participating employer chooses to stop participating in some of its multi-employer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in these plans for the annual period ended June 30, 2015, is outlined in the following table. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2015 and 2014 is for the plan's year-end at December 31, 2014 and 2013, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are between 65 percent and 80 percent funded, and plans in the green zone are at least 80 percent funded.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		Rehabilitation Plan Status	Company Contributions (in thousands)			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement	Number of Company Employees in Plan
		June 30, 2015	2014		2015	2014	2013			
Central States SE and SW Areas Pension Fund	36-6044243	Red	Red	Implemented	\$ 248	\$ 252	\$ 243	No	03/31/2018	15
Steelworkers Pension Trust	23-6648508	Green	Green	No	364	380	347	No	10/31/2015	197
Central Pension Fund	36-6052390	Green	Green	No	7	7	7	No	05/31/2017	3
					\$ 619	\$ 639	\$ 597			

The cumulative cost to exit the Company's multi-employer plans was approximately \$9.2 million on June 30, 2015.

Supplemental Retirement Plans

The Company has unfunded supplemental retirement plans with executive officers. The plans require various annual contributions for the participants based upon compensation levels and age. All participants are fully vested. At June 30, 2015 and 2014, the supplemental retirement plan liability was \$4.1 million, respectively, of which \$1.2 million and \$0.7 million were recorded in other current liabilities and \$2.9 million and \$3.4 million were recorded in other long-term liabilities, respectively. The Company maintains supplemental retirement plans, collectively referred to as the Supplemental Plan, which provides for additional annual defined contributions toward retirement benefits to certain of the Company's executive officers. For fiscal 2015, 2014 and 2013, the benefit obligation was increased by interest expense of \$0.5 million, \$1.4 million and \$0.5 million, deposits of \$0.3 million, \$0.3 million and \$0.5 million, and decreased by payments of \$0.9 million, \$3.1 million and \$1.3 million, respectively. Funds of the deferred compensation plans are held in a Rabbi Trust. The assets held in the Rabbi Trust are not available for general corporate purposes. The Rabbi Trust is subject to creditor claims in the event of insolvency, but otherwise must be

used only for purposes of providing benefits under the plans. As of June 30, 2015, the Company's deferred compensation plan assets, held in the Rabbi Trust, were invested in stock and bond funds and are recorded in the consolidated balance sheets at fair market value. As of June 30, 2015 and 2014, the fair market value of the assets held in the Rabbi Trust were \$3.5 million and \$3.8 million, respectively, \$1.1 million and \$0.7 million, respectively, of the assets are classified as other current assets and \$2.4 million and \$3.1 million, respectively, are classified as other noncurrent assets in the consolidated balance sheets. These assets are classified as Level 2 in accordance with fair value accounting as discussed in Note 1.

Defined Benefit Plan

The Company's defined benefit pension plan is frozen. There are a total of 403 participants in the plan. Retirement benefits are based on years of credited service multiplied by a dollar amount negotiated under collective bargaining agreements. The Company's policy is to fund normal costs and amortization of prior service costs at a level that is equal to or greater than the minimum required under the Employee Retirement Income Security Act of 1974 (ERISA). As of June 30, 2015 and 2014, the Company recorded an accrued benefit liability related to the funded status of the defined benefit pension plan recognized on the Company's consolidated balance sheets in other long-term liabilities of \$0.9 million and \$0.7 million, respectively. The accumulated benefit obligation was \$8.0 million and \$7.8 million at fiscal years ended June 30, 2015 and 2014, respectively. The Company recorded expense of \$0.1 million, \$0.1 million and \$0.1 million during fiscal years 2015, 2014 and 2013, respectively, related to the plan.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive loss, net of income taxes, are as follows:

(in thousands)	June 30,		
	2015	2014	2013
Available-for-sale securities, net of tax (1)	\$(152)	\$(5)	\$394
Pension and other post-retirement benefit adjustments, net of tax (2)	(1,584)	(1,251)	(1,485)
Total accumulated other comprehensive loss	\$(1,736)	\$(1,256)	\$(1,091)

(1) The tax effect on the available-for-sale securities is a tax (benefit) expense of \$(0.1) million, \$(0.0) million and \$0.2 million at June 30, 2015, 2014 and 2013, respectively.

(2) The tax effect on the pension and other post-retirement benefit adjustments is a tax benefit of \$1.0 million, \$0.8 million and \$0.9 million at June 30, 2015, 2014 and 2013, respectively.

11. LITIGATION

Indiana Civil Litigation – In December 2013, the Company entered into a confidential agreement to settle the Indiana Civil Litigation. The Company paid \$6.25 million to Plaintiffs to settle the matter without admission of wrongdoing. The Company continues to believe that it did not cause or contribute to the contamination. This settlement is recorded as litigation settlement costs in the consolidated statements of income.

During the fiscal years ended June 30, 2015, 2014 and 2013, the Company recorded \$0.6 million, \$2.1 million and \$2.3 million, respectively, in legal and other related expenses that were incurred responding to the lawsuits and pursuing insurance coverage. These expenses are included in SG&A expense in the consolidated statements of income.

During the fiscal years ended June 30, 2015 and 2014, the Company received approximately \$0.2 million and \$2.8 million from insurance carriers to reimburse the Company for certain legal defense costs. These reimbursement amounts are recorded in SG&A as a reduction of legal expenses. The Company did not receive reimbursements for certain legal defense costs during fiscal year 2013. The Company will continue to pursue the recovery of additional defense and settlement costs from insurance carriers. Based on policy language and jurisdiction, insurance coverage is in question. The Iowa District Court dismissed litigation filed by the Company's insurance carriers in Iowa after the Iowa Court of Appeals found that Indiana law applied to the insurance policies in question and the Iowa Supreme Court denied further review. The dismissal has been appealed by the insurance carriers to the Iowa Supreme Court. Concurrently, coverage litigation is proceeding against the insurance carriers in Indiana.

Other Proceedings – From time to time, the Company is subject to various other legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of the Company’s business. The Company does not consider any of such other proceedings that are currently pending, individually or in the aggregate, to be material to its business or likely to result in a material effect on its consolidated operating results, financial condition, or cash flows.

12. COMMITMENTS AND CONTINGENCIES

FACILITY LEASES – the Company leases certain facilities and equipment under various operating leases. These leases require the Company to pay the lease cost, operating costs, including property taxes, insurance, and maintenance. Total lease expense related to the various operating leases was approximately \$3.8 million, \$2.8 million and \$2.5 million in fiscal 2015, 2014 and 2013, respectively.

Expected future minimum commitments under operating leases as of June 30, 2015 were as follows:

(in thousands)

Fiscal Year Ended June 30,	
2016	3,785
2017	3,514
2018	1,725
2019	1,781
2020	1,201
Thereafter	452
	\$12,458

13. SEGMENT REPORTING

The Company operates in one reportable segment, furniture products. Our operations involve the distribution of manufactured and imported furniture for residential and commercial markets. The Company's furniture products are sold primarily throughout the United States by the Company's internal sales force and various independent representatives. The Company makes minimal export sales. No single customer accounted for more than 10% of net sales.

Set forth below is information for the past three fiscal years showing the Company's net sales attributable to each of the areas of application:

(in thousands)	FOR THE YEARS ENDED		
	JUNE 30,		
	2015	2014	2013
Residential	\$393,143	\$359,565	\$311,214
Commercial	73,761	78,978	74,975
	\$466,904	\$438,543	\$386,189

14.SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION – UNAUDITED

(in thousands, except per share amounts)	FOR THE QUARTER ENDED			
	September 30	December 31	March 31	June 30
Fiscal 2015:				
Net sales	\$108,666	\$114,386	\$122,530	\$121,323
Gross margin	25,520	27,094	29,668	27,579
Litigation settlement reimbursements	—	—	250	—
Net income	4,878	7,502	6,956	5,780
Earnings per share:				
Basic	\$0.66	\$0.63	\$0.94	\$0.77
Diluted	\$0.64	\$0.61	\$0.90	\$0.74

(in thousands, except per share amounts)	FOR THE QUARTER ENDED			
	September 30	December 31	March 31	June 30
Fiscal 2014:				
Net sales	\$104,348	\$112,534	\$110,532	\$111,129
Gross margin	23,645	26,059	25,044	25,515
Litigation settlement costs	—	(6,250)	—	—
Net income	3,768	1,170	4,420	5,632
Earnings per share:				
Basic	\$0.53	\$0.16	\$0.61	\$0.77
Diluted	\$0.51	\$0.16	\$0.58	\$0.74

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures – Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e)) under the Securities Act of 1934, as amended) were effective as of June 30, 2015.

Changes in internal control over financial reporting – During the fiscal quarter ended June 30, 2015, there was no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect the Company’s internal control over financial reporting.

Management’s Annual Report on Internal Control Over Financial Reporting – Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) or 15d-15(f) of the Securities Exchange Act of 1934, as amended. We performed an evaluation under the supervision and with the participation of our management, including the CEO and CFO, to assess the effectiveness of the design and operation of our disclosure controls and procedures under the Exchange Act as of June 30, 2015. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on those criteria, management concluded that the internal control over financial reporting is effective as of June 30, 2015. The effectiveness of the Company’s internal control over financial reporting as of June 30, 2015, has been audited by Deloitte & Touche LLP, our independent registered public accounting firm, as stated in their report in Part II, Item 8 of this Form 10-K.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained in the Company's 2015 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned "Proposal 1 Election of Directors," "Corporate Governance – Audit and Ethics Committee," "Corporate Governance – Nomination Matters," and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

The Company has adopted a code of ethics called the *Guidelines for Business Conduct* that applies to the Company's employees, including the principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. A copy of the code of ethics is posted on our website at www.flexsteel.com.

Item 11. Executive Compensation

The information contained in the Company's 2015 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned "Executive Compensation," and "Director Compensation," is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained in the Company's 2015 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned "Ownership of Stock By Directors and Executive Officers," "Ownership of Stock by Certain Beneficial Owners," and "Equity Compensation Plan Information" is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained under the sections "Interest of Management and Others in Certain Transactions" and "Corporate Governance – Board of Directors" in the Company's 2015 definitive proxy statement to be filed with the Securities and Exchange Commission is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained in the Company’s 2015 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned “Independent Registered Public Accounting Firm” is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) Financial Statements

The financial statements of the Company are set forth above in Item 8.

(2) Schedules

The following financial statement schedules for the years ended June 30, 2015, 2014 and 2013 are submitted herewith:

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended June 30, 2015, 2014 and 2013

(in thousands)	Balance at Beginning of Year	(Additions) Reductions to Income	Additions to (Deductions from) Reserves	Balance at End of Year
Description				
Accounts Receivable Allowances:				
2015	1,370	72	(42)	1,400

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2014	1,560	6	(196)	1,370
2013	\$ 1,910	\$ (215)	\$ (135) \$ 1,560

Other schedules are omitted because they are not required or are not applicable or because the required information is included in the financial statements.

(3) Exhibits

Exhibit No.

- 3.1 Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Form 8-K, as filed with the Securities and Exchange Commission on December 8, 2010).
- 3.2 Amended and Restated Bylaws of the Company (incorporated by reference to Form 8-K, as filed with the Securities and Exchange Commission on December 8, 2010).
- 10.1 Flexsteel Industries, Inc. Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit No. 10.5 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001). *
- 10.2 Flexsteel Industries, Inc. Restoration Retirement Plan (incorporated by reference to Exhibit No. 10.6 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001). *
- 10.3 Flexsteel Industries, Inc. Senior Officer Supplemental Retirement Plan (incorporated by reference to Exhibit No. 10.7 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001). *
- 10.4 2002 Stock Option Plan (incorporated by reference to Appendix A from the 2002 Flexsteel definitive proxy statement). *
- 10.5 Flexsteel Industries, Inc. 2006 Stock Option Plan (incorporated by reference to Appendix C from the 2006 Flexsteel Proxy Statement filed with the Securities and Exchange Commission on October 31, 2006). *
- 10.6 Employment Agreement dated October 1, 2006 between Flexsteel Industries, Inc. and Donald D. Dreher (incorporated by reference to Exhibit 10.1 to Flexsteel's Form 8-K filed with the Securities and Exchange Commission on October 5, 2006). *
- 10.7 Amendment to Employment Agreement dated June 27, 2008 between Flexsteel Industries, Inc. and Donald D. Dreher (incorporated by reference to Exhibit 10.3 to Flexsteel's Form 8-K filed with the Securities and Exchange Commission on June 27, 2008).*
- 10.8 Flexsteel Industries, Inc. 2007 Long-Term Management Compensation Plan (incorporated by reference to Appendix C to the Definitive Proxy Statement on Schedule 14A filed with the Commission on November 1, 2007). *
- 10.9 2009 Stock Option Plan (incorporated by reference to Appendix A from the 2009 Flexsteel definitive proxy statement). *
- 10.10 Credit Agreement dated April 14, 2010 between Flexsteel Industries, Inc. and Wells Fargo Bank, N.A. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on April 19, 2010).
- 10.11 First Amendment dated June 7, 2011 to Credit Agreement dated April 14, 2010 between Flexsteel Industries, Inc. and Wells Fargo Bank, N.A. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on June 9, 2011).

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10.12 Second Amendment dated May 11, 2012 to Credit Agreement dated April 14, 2010 between Flexsteel Industries, Inc. and Wells Fargo Bank, N.A. (incorporated by reference to Form 10-Q for the period ended March 31, 2013 filed with the Securities and Exchange Commission on April 18, 2013).

10.13 Third Amendment dated June 28, 2013 to Credit Agreement dated April 14, 2010 between Flexsteel Industries, Inc. and Wells Fargo Bank, N.A. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on July 5, 2013).

10.14 Restricted Stock Unit Award Agreement for Karel K. Czanderna, dated July 1, 2012 (incorporated by reference to Exhibit 4.1 of Flexsteel's Form S-8 filed with the Securities and Exchange Commission on August 20, 2012). *

10.15 Form of Notification of Award for the Cash Incentive Compensation Plan (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on December 13, 2013). *

- 10.16 Form of Notification of Award for the Long-Term Incentive Compensation Plan (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on December 13, 2013). *
- 10.17 Form of Notification of Award for incentive stock options issued under the Omnibus Stock Plan (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on December 13, 2013). *
- Form of Notification of Award for non-qualified stock options issued under the Omnibus Stock Plan
10.18 (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on December 13, 2013). *
- Form of Notification of Award for director non-qualified stock options issued under the Omnibus Stock Plan
10.19 (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on December 13, 2013).*
- 10.20 Form of Notification of Award for restricted stock units issued under the Omnibus Stock Plan (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on December 13, 2013). *
- 10.21 Long-Term Incentive Compensation Plan, dated July 1, 2013 (incorporated by reference to Exhibit 4.1 of Flexsteel's Form S-8 filed with the Securities and Exchange Commission on December 23, 2013). *
- 10.22 Omnibus Stock Plan, dated July 1, 2013 (incorporated by reference to Exhibit 4.1 of Flexsteel's Form S-8 filed with the Securities and Exchange Commission on December 23, 2013). *
- Fourth Amendment to Credit Agreement dated June 27, 2014 between Flexsteel Industries, Inc. and Wells
10.23 Fargo Bank, N.A. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on June 27, 2014).
- Revolving Line of Credit Note dated June 27, 2014 between Flexsteel Industries, Inc. and Wells Fargo Bank,
10.24 N.A. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on June 27, 2014).
- Purchase and Sale Agreement dated August 8, 2014 between Flexsteel Industries, Inc. and ELHC I, LLC
10.25 (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on August 14, 2014).
- Completion of Acquisition of Assets dated September 26, 2014 between Flexsteel Industries, Inc. and ELHC I,
10.26 LLC. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on October 1, 2014).
- Promissory Note dated January 1, 2015 between Flexsteel Industries, Inc. and American Trust & Savings Bank.
10.27 (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on January 8, 2015).
- Sixth Amendment to Credit Agreement dated January 12, 2015 between Flexsteel Industries, Inc. and Wells
10.28 Fargo Bank, N.A. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on January 14, 2015).

10.29

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Seventh Amendment to Credit Agreement dated June 29, 2015 between Flexsteel Industries, Inc. and Wells Fargo Bank, N.A. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on July 1, 2015).

10.30 First Modification to Revolving Line of Credit Note dated June 29, 2015 between Flexsteel Industries, Inc. and Wells Fargo Bank, N.A. (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on July 1, 2015).

21.1 Subsidiaries of the Company. Filed herewith.

23 Consent of Independent Registered Public Accounting Firm. Filed herewith.

31.1 Certification. Filed herewith.

31.2 Certification. Filed herewith.

32 Certification by Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB XBRL Taxonomy Extension Labels Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

*Management contracts, compensatory plans and arrangements required to be filed as an exhibit to this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: August 28, 2015 FLEXSTEEL INDUSTRIES, INC.

By: /s/ Karel K. Czanderna
Karel K. Czanderna
Chief Executive Officer
and
Principal Executive Officer

By: /s/ Timothy E. Hall
Timothy E. Hall
Chief Financial Officer
and
Principal Financial and Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: August 28, 2015 /S/ Lynn J. Davis
Lynn J. Davis
Chair of the Board of Directors

Date: August 28, 2015 /S/ Karel K. Czanderna
Karel K. Czanderna
Director

Date: August 28, 2015 /S/ Jeffrey T. Bertsch
Jeffrey T. Bertsch
Director

Date: August 28, 2015 /S/ Mary C. Bottie
Mary C. Bottie
Director

Date: August 28, 2015 /S/ Robert E. Deignan
Robert E. Deignan
Director

Date: August 28, 2015 /S/ Thomas M. Levine
Thomas M. Levine
Director

Date: August 28, 2015 /S/ Robert J. Maricich
Robert J. Maricich
Director

Date: August 28, 2015 /S/ Eric S. Rangen
Eric S. Rangen
Director

Date: August 28, 2015 /S/ James R. Richardson
James R. Richardson
Director

Date: August 28, 2015 /S/ Nancy E. Uridil
Nancy E. Uridil
Director