bluebird bio, Inc.
Form 424B5
December 11, 2017
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-216178

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission and is effective. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated December 11, 2017

PROSPECTUS SUPPLEMENT

(To prospectus dated February 22, 2017)

$600,000,000

Common Stock

We are offering up to $600,000,000 of our common stock in this offering.

Our common stock is quoted on the Nasdaq Global Select Market under the symbol BLUE. On December 8, 2017, the last reported sale price of our common stock was $171.15 per share, as reported on the Nasdaq Global Select Market.

Investing in our common stock involves risks. See Risk Factors beginning on page S-11 of this prospectus supplement and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, which is incorporated herein by reference.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to bluebird bio, Inc.	$	$

The underwriters have the option to purchase up to approximately $90,000,000 of additional shares from us at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York on , 2017.

Goldman Sachs & Co. LLC **BofA Merrill Lynch** **J.P. Morgan** **Cowen**

Prospectus supplement dated December , 2017.

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We have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus supplement and the accompanying prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is part of the registration statement that we filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process and consists of two parts. The first part is this prospectus supplement, including the documents incorporated by reference, which describes the specific terms of this offering. The second part, the accompanying prospectus, including the documents incorporated by reference, gives more general information, some of which may not apply to this offering. Generally, when we refer to the prospectus, we are referring to both parts combined. This prospectus supplement may add to, update or change information in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement or the accompanying prospectus.

If information in this prospectus supplement is inconsistent with the accompanying prospectus or with any document incorporated by reference that was filed with the SEC before the date of this prospectus supplement, you should rely on this prospectus supplement. This prospectus supplement, the accompanying prospectus and the documents incorporated by reference into each include important information about us, the securities being offered and other information you should know before investing in our securities. You should also read and consider information in the documents we have referred you to in the sections of this prospectus supplement and the accompanying prospectus entitled Where You Can Find Additional Information and Incorporation of Certain Information by Reference.

We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference herein were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

We take no responsibility for, and can provide no assurances as to the reliability of, any information that is in addition to or different from that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We are not offering to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than as of the date of this prospectus supplement or the accompanying prospectus, as the case may be, or in the case of the documents incorporated by reference, the date of such documents regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any sale of our securities. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

All references in this prospectus supplement or the accompanying prospectus to bluebird bio, the Company, we, us, our mean bluebird bio, Inc. and our subsidiaries, unless we state otherwise or the context otherwise requires. We use Lenti-D and the bluebird bio logo as trademarks in the United States and other countries. We use and have registered LentiGlobin and bluebird bio in the United States. This prospectus supplement and the information incorporated herein by reference contain references to trademarks, service marks and trade names owned by us or other companies. Solely for convenience, trademarks, service marks and trade names referred to in this prospectus supplement and the information incorporated herein, including logos, artwork, and other visual displays, may appear without the ® or symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks, service marks and trade names. We do not intend our use or display of other companies trade names, service marks or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies. All trademarks, service marks and trade names included or incorporated by reference into this prospectus supplement or any related free writing

prospectus are the property of their respective owners.

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No action is being taken in any jurisdiction outside the United States to permit a public offering of the securities or possession or distribution of this prospectus supplement or the accompanying prospectus in that jurisdiction. Persons who come into possession of this prospectus supplement or the accompanying prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus supplement or the accompanying prospectus applicable to that jurisdiction.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933, as amended, or the Securities Act, with respect to the common stock offered by this prospectus supplement. This prospectus supplement, filed as part of the registration statement, does not contain all the information set forth in the registration statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the SEC. For further information about us, we refer you to the registration statement and to its exhibits and schedules.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC also maintains a website at www.sec.gov that contains periodic and current reports, proxy and information statements, and other information regarding registrants that are filed electronically with the SEC.

These documents are also available, free of charge, through the Investors section of our website, which is located at www.bluebirdbio.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information on our website to be part of this prospectus supplement or the accompanying prospectus.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference in this prospectus supplement and the accompanying prospectus is considered to be part of this prospectus. Because we are incorporating by reference future filings with the SEC, this prospectus supplement is continually updated and those future filings may modify or supersede some of the information included or incorporated in this prospectus supplement. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus supplement, the accompanying prospectus or in any document previously incorporated by reference have been modified or superseded. This prospectus supplement incorporates by reference the documents listed below (File No. 001-35966) and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act (in each case, other than those documents or the portions of those documents not deemed to be filed) between the date of this prospectus supplement and the termination of this offering:

Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on February 22, 2017;

The information specifically incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2016 from our definitive proxy statement on Schedule 14A (other than information furnished rather than filed), which was filed with the SEC on April 21, 2017;

Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2017, June 30, 2017 and September 30, 2017, as filed with the SEC on May 3, 2017, August 2, 2017 and November 1, 2017, respectively;

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Current Reports on Form 8-K filed with the SEC on February 3, 2017, February 13, 2017, May 2, 2017, May 11, 2017, June 5, 2017 (solely with respect to Item 8.01 and the associated Item 9.01 (Exhibit 99.2)), June 8, 2017, June 23, 2017, June 26, 2017, June 28, 2017, September 20, 2017 (solely with respect to Item 5.02), September 28, 2017, October 4, 2017 (as amended on October 20, 2017), November 1, 2017 (solely with respect to Item 8.01 and the associated Item 9.01 (Exhibit 99.2)), November 16, 2017, November 29, 2017 (solely with respect to Item 8.01), December 7, 2017 and December 11, 2017; and

The description of our common stock contained in our registration statement on Form 8-A, which was filed with the SEC on June 14, 2013, including any amendment or report filed for the purpose of updating such description.

You may request a copy of these filings, at no cost, by contacting us, either orally or in writing, at the following:

bluebird bio, Inc.

60 Binney Street

Cambridge MA 02142

Phone: (339) 499-9300

investor@bluebirdbio.com

Attn: Investor Relations

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein contain statements that are not historical facts and are considered forward-looking within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements contain projections of our future results of operations or of our financial position or state other forward-looking information. In some cases you can identify these statements by forward-looking words such as anticipate, believe, could, continu estimate, expect, intend, may, should, would, plan, projected or the negative of such words or other sim phrases. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

Investors are cautioned not to unduly rely on forward-looking statements because they relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- the initiation, timing, progress and results of our preclinical and clinical studies, and our research and development programs;
- our ability to advance product candidates into, and successfully complete, clinical studies;
- our ability to advance our viral vector and drug product manufacturing capabilities;
- the timing or likelihood of regulatory filings and approvals for our product candidates;
- the timing or success of commercialization of our product candidates, if approved;
- the pricing and reimbursement of our product candidates, if approved;
- the implementation of our business model, strategic plans for our business, product candidates and technology;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates and technology;
- estimates of our expenses, future revenues, capital requirements and our needs for additional financing;

- the potential benefits of strategic collaboration agreements and our ability to enter into strategic arrangements;
- our ability to maintain and establish collaborations and licenses;
- our financial performance;
- developments relating to our competitors and our industry; and
- other risks and uncertainties, including those listed under the caption Risk Factors below and in any documents incorporated by reference herein.

Given these uncertainties, readers should not place undue reliance on our forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made and are not guarantees of future performance. Except as may be required by applicable law, we do not undertake or intend to update any forward-looking statements after the date of this prospectus supplement or the respective dates of documents incorporated by reference herein or therein that include forward-looking statements.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus and in the documents we incorporate by reference. This summary may not contain all the information that you should consider before investing in our securities. You should read this entire prospectus supplement and the accompanying prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors beginning on page S-11 of this prospectus supplement, along with our consolidated financial statements and notes to those consolidated financial statements and the other information incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. This prospectus supplement may add to, update or change information in the accompanying prospectus.

Overview

We are a clinical-stage biotechnology company committed to developing potentially transformative gene therapies for severe genetic diseases and cancer. With our lentiviral-based gene therapy and gene editing capabilities, we have built an integrated product platform with broad potential application in these areas. We believe that gene therapy for severe genetic diseases has the potential to change the way these patients are treated by correcting the underlying genetic defect that is the cause of their disease, rather than offering treatments that merely address their symptoms. Our clinical programs in severe genetic diseases include our LentiGlobin® product candidate as a treatment for each of transfusion-dependent ß-thalassemia, or TDT, and severe sickle cell disease, or severe SCD, and our Lenti-D product candidate as a treatment for cerebral adrenoleukodystrophy, or CALD, a rare hereditary neurological disorder. Our programs in oncology are built upon our leadership in lentiviral gene delivery and T cell engineering, with a focus on developing novel T cell-based immunotherapies, including chimeric antigen receptor (CAR) and T cell receptor (TCR) T cell therapies. bb2121 and bb21217, our product candidates in oncology, are CAR T cell product candidates for the treatment of multiple myeloma, which we have exclusively licensed to Celgene Corporation, or Celgene.

We are conducting five clinical studies of our LentiGlobin product candidate: a Phase I/II study in the United States, Australia, and Thailand for the treatment of subjects with TDT, called the Northstar Study (HGB-204); a multi-site, international, Phase III study for the treatment of subjects with TDT and a non-$ß^0$/ $ß^0$ genotype, called the Northstar-2 Study (HGB-207); a multi-site, international, Phase III study for the treatment of subjects with TDT and a $ß^0$/$ß^0$ genotype, called the Northstar-3 Study (HGB-212); a single-center Phase I/II study in France for the treatment of subjects with TDT or severe SCD (HGB-205); and a multi-site Phase I study in the United States for the treatment of subjects with severe SCD (HGB-206). We have achieved our enrollment target of 18 patients in the Northstar Study, and we have achieved our enrollment target for the adult and adolescent cohort in the Northstar-2 Study. Both TDT and severe SCD are rare, hereditary blood disorders that often lead to severe anemia and shortened lifespans. Our LentiGlobin product candidate has been granted Orphan Drug status by the U.S. Food and Drug Administration, or FDA, and the European Medicines Agency, or EMA, for the treatment of both ß-thalassemia and SCD. Our LentiGlobin product candidate was granted Fast-Track designation by the FDA for the treatment of ß-thalassemia major and for the treatment of certain patients with severe SCD. The FDA has granted Breakthrough Therapy designation to our LentiGlobin product candidate for the treatment of transfusion-dependent patients with ß-thalassemia major, and Regenerative Medicine Advanced Therapy designation to our LentiGlobin product candidate for the treatment of severe SCD. The EMA has granted eligibility to its Priority Medicines (PRIME) scheme for our LentiGlobin product candidate for the treatment of TDT. Based on our discussions with the EMA, we believe that we may be able to seek conditional approval for our LentiGlobin product candidate, with our improved manufacturing process, for the treatment of subjects with TDT and a non- $ß^0$/ $ß^0$ genotype on the basis of the totality of the clinical data from our ongoing studies with LentiGlobin. For efficacy, we believe that the Northstar Study and supportive ongoing HGB-205

study, together with the data available from our ongoing Northstar-2 Study and our long-term follow-up study LTF-303, could support the filing of a marketing authorization application in the European Union. This plan is contingent upon all of the studies conducted in patients with TDT with the LentiGlobin product candidate demonstrating sufficient efficacy and safety, and in particular, transfusion independence (the primary endpoint) and reduction in transfusion requirements (a secondary endpoint), for efficacy analyses in the Northstar, HGB-205 and Northstar-2 studies.

We are conducting a multi-site, international, Phase II/III clinical study of our Lenti-D product candidate, called the Starbeam Study (ALD-102), for the treatment of subjects with CALD, a rare, hereditary neurological disorder that is often fatal. Our Lenti-D product candidate has been granted Orphan Drug status by the FDA and the EMA for the treatment of adrenoleukodystrophy. Seventeen subjects were treated with our Lenti-D product candidate in the initial cohort of the Starbeam Study, and we are enrolling up to eight additional subjects in an expansion cohort of the Starbeam study. We are also conducting an observational study of subjects with CALD treated by allogeneic hematopoietic stem-cell transplant referred to as the ALD-103 study. If Lenti-D shows a sufficiently compelling treatment effect, and pending further discussion with regulatory authorities, the results from the Starbeam study could potentially form the basis of a Biologics License Application, or BLA, and a Marketing Authorization Application, or MAA, submission in the United States and European Union, respectively. However, there can be no assurance that the FDA and the EMA will not require additional studies before the approval of a BLA or MAA, respectively.

Collaboration with Celgene Corporation and Our T Cell-based Immunotherapy Program

In March 2013, we entered into a global strategic collaboration with Celgene to discover, develop and commercialize chimeric antigen receptor-modified T cells, or CAR T cells, as potentially disease-altering therapies in oncology. This collaboration had an initial term of three years, and Celgene made a $75.0 million up-front, non-refundable cash payment to us as consideration for entering into the collaboration. In June 2015, we amended and restated the collaboration agreement, or the Amended Collaboration Agreement, to focus exclusively on anti-BCMA product candidates for a new three-year term. B-cell maturation antigen, or BCMA, is a cell surface protein that is expressed on normal plasma cells and on most multiple myeloma cells, but is absent from other normal tissues. In February 2016, we initiated a Phase I clinical study of bb2121, the first anti-BCMA product candidate from our collaboration, and Celgene exercised its option to obtain an exclusive worldwide license to develop and commercialize bb2121. In December 2017, Celgene announced that it began enrollment in a pivotal trial for bb2121 in relapsed/refractory multiple myeloma, and disclosed plans to conduct additional clinical studies of bb2121 in earlier lines of treatment. We may elect to co-develop and co-promote bb2121, and any other product candidates in the United States under this collaboration arrangement. The FDA has granted Breakthrough Therapy designation and the EMA has granted PRIME eligibility to the bb2121 product candidate for relapsed and refractory multiple myeloma. In September 2017, we initiated a Phase I clinical study of bb21217, the second anti-BCMA cell product candidate arising from this collaboration with Celgene, and Celgene exercised its option to obtain an exclusive worldwide license to develop and commercialize bb21217. The FDA has granted Orphan Drug status to both bb2121 and bb21217 product candidates.

Gene Editing Technologies

In June 2014, we acquired Precision Genome Engineering, Inc., or Pregenen, a privately-held biotechnology company headquartered in Seattle, Washington. Through the acquisition, we obtained rights to Pregenen s gene editing and cell signaling technology, and have integrated these technologies and research team and expanded our related gene editing discovery research efforts. We are focused on utilizing homing endonuclease and

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megaTAL gene editing technologies in a variety of potential applications and disease areas, including for severe genetic and rare diseases and oncology. Homing endonucleases and MegaTALs are novel enzymes that provide a highly specific and efficient way to silence, edit or insert genetic components into a cell to potentially treat a variety of diseases.

Manufacturing Arrangements

In November 2017, we purchased a partially completed manufacturing facility located in Durham, North Carolina for $11.5 million. We acquired this 125,000 square foot facility to provide manufacturing capacity for lentiviral vector in support of our gene and cell therapy product candidates. We have also entered into multi-year agreements with manufacturing partners in the United States and Europe (Brammer Bio, Novasep and MilliporeSigma), which are partnering with us on production of lentiviral vector across all of our programs. In addition, we partner with Lonza Houston, Inc. and apceth Biopharma to produce drug product for Lenti-D and LentiGlobin.

Risks Related to Our Business

We are a clinical-stage biotechnology company, and our business and ability to execute our business strategy are subject to a number of risks of which you should be aware before you decide to buy our common stock. In particular, you should consider the following risks, which are discussed more fully in the section entitled Risk Factors in this prospectus supplement and in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017, which are incorporated herein by reference:

- We have incurred significant losses since our inception, which we anticipate will continue for the foreseeable future. We have never generated revenue from product sales and may never be profitable.

- Failure to obtain additional funding when needed may force us to delay, limit or terminate our product development efforts or other operations.

- Our gene therapy product candidates are based on a novel technology, which makes it difficult to predict the time and cost of product candidate development and subsequently obtaining regulatory approval.

- We may find it difficult to enroll patients in our clinical studies, which could delay or prevent clinical studies of our product candidates.

- If our product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

- To date, no gene therapy products have been approved in the United States and only a few gene therapy products have been approved in the European Union.

We have not completed any clinical studies of our current viral vectors or product candidates derived from these viral vectors and initial success in our ongoing clinical studies may not be indicative of results obtained when these studies are completed. Furthermore, success in early clinical studies may not be indicative of results obtained in later studies.

Patients with different genotypes may respond differently to treatment with our product candidates, which may result in the delay of our clinical development and commercialization plans.

We cannot be certain that the ongoing clinical trial, together with the planned pivotal trial, of the bb2121 product candidate in subjects with relapsed/refractory multiple myeloma will be sufficient to form the basis for a BLA submission for the bb2121 product candidate.

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The results from our Starbeam Study may not be sufficiently robust to support the submission of marketing approval for our Lenti-D product candidate. Before we submit our Lenti-D product candidate for marketing approval, the FDA and the EMA may require us to enroll additional subjects, conduct additional studies, or evaluate subjects for an additional follow-up period.

We cannot be certain that our Northstar-3 clinical study in patients with TDT and a $ß^0/ß^0$ genotype, together with data from our Northstar and HGB-205 clinical studies, will be sufficient to form the basis for a BLA submission for our LentiGlobin product candidate.

There can be no assurance that we will ultimately receive conditional marketing approval of our LentiGlobin product candidate in the European Union, or the nature of the conditions that would be imposed on us if conditionally approved.

Changes in our manufacturing processes may cause delays in our clinical development and commercialization plans.

In previous clinical studies involving viral vectors for gene therapy, some subjects experienced serious adverse events, including the development of leukemia due to vector-related insertional oncogenesis. If our vectors demonstrate a similar effect, we may be required to halt or delay further clinical development of our product candidates.

In previous clinical studies involving T cell-based immunotherapies, some subjects experienced serious adverse events. Our T cell-based immunotherapy product candidates may demonstrate a similar effect or have other properties that could halt their clinical development, prevent their regulatory approval, limit their commercial potential, or result in significant negative consequences.

We expect to rely on third parties to conduct some or all aspects of our vector production, drug product manufacturing, research and preclinical and clinical testing. If they fail to meet deadlines or to perform in a satisfactory manner, our business could be harmed.

We expect to rely on third parties to conduct, supervise and monitor our clinical studies, and if these third parties fail to perform in a satisfactory manner, our business could be harmed.

The commercial success of any current or future product candidate will depend upon the degree of market acceptance by physicians, patients, third-party payors and others in the medical community.

If we are unable to obtain or protect intellectual property rights related to our product candidates, we may not be able to compete effectively in our markets.

Company Information

We were incorporated in Delaware in April 1992 under the name Genetix Pharmaceuticals, Inc., and subsequently changed our name to bluebird bio, Inc. in September 2010.

Our mailing address and executive offices are located at 60 Binney Street, Cambridge, Massachusetts and our telephone number at that address is (339) 499-9300. We maintain an Internet website at the following address: www.bluebirdbio.com. The information on, or that can be accessed through, our website does not constitute part of this prospectus supplement or the accompanying prospectus, and you should not rely on any such information in making the decision whether to purchase our common stock.

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THE OFFERING

Common stock offered by us	shares. We have also granted the underwriters a 30-day option to purchase up to additional shares.
Common stock outstanding following the offering	shares (or shares if the underwriters exercise their option to purchase additional shares in full).
Use of proceeds	We estimate that the net proceeds from this offering will be approximately $569.7 million (or approximately $655.2 million if the underwriters exercise their option to purchase additional shares in full), based on an assumed public offering price of $171.15 per share, the closing price of our common stock on the Nasdaq Global Select Market on December 8, 2017, after deducting estimated underwriting discounts and commissions and estimated offering expenses.
	We intend to use the net proceeds from this offering to fund the potential exercise of our option to co-develop and co-promote our bb2121 product candidate, which has been exclusively licensed by Celgene Corporation, in the United States following the completion of the ongoing Phase I clinical study; to fund our Phase I clinical study of our bb21217 product candidate in multiple myeloma; to fund HGB-212, our Phase III clinical study of our LentiGlobin product candidate in patients with TDT who have a $ß^0$/ $ß^0$ genotype; to further build our commercial infrastructure in support of potential commercial launch of LentiGlobin in TDT in the United States and Europe pending regulatory approvals in the United States and Europe, including the completion of our internal manufacturing capacity; to fund potential future development of our sickle cell program; to fund the continued research and development of additional CAR T and TCR product candidates in oncology; to further expand our manufacturing platform and capabilities to support our ongoing and anticipated product development efforts, and in anticipation of a potential commercial launch; and for general and administrative expenses, potential future development programs and early-stage research and development, capital expenditures and working capital and other general corporate purposes.
Nasdaq Global Select Market Symbol	BLUE
Risk factors	Investing in our securities involves risks. See Risk Factors beginning on page S-11 of this prospectus supplement and other information included

or incorporated by reference into this prospectus supplement and the accompanying prospectus for a discussion of the factors you should carefully consider before deciding to invest in our securities.

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The number of shares of our common stock to be outstanding after the offering is based on 45,785,053 shares of common stock outstanding as of September 30, 2017, and excludes:

- 4,015,728 shares of common stock issuable upon the exercise of stock options outstanding as of September 30, 2017, at a weighted average exercise price of $63.62 per share;

- 455,672 shares of common stock issuable upon the vesting of restricted stock units outstanding as of September 30, 2017;

- 1,699,219 shares of common stock reserved for future issuance under our 2013 Stock Option and Incentive Plan, or the 2013 Plan, as of September 30, 2017, plus any future increases in the number of shares of common stock reserved for issuance under the 2013 Plan pursuant to the evergreen provision of the 2013 Plan; and

- 188,344 shares of common stock reserved for future issuance under our 2013 Employee Stock Purchase Plan as of September 30, 2017.

Except as otherwise indicated, all information in this prospectus supplement assumes:

- no exercise by the underwriters of their option to purchase up to approximately $90,000,000 of additional shares of common stock in this offering; and

- no exercise of stock options after September 30, 2017.

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RISK FACTORS

Investing in our securities involves a high degree of risk. In addition to the other information contained in this prospectus supplement, the accompanying prospectus and in the documents we incorporate by reference, you should carefully consider the risks discussed below and under the heading Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed with the SEC on November 1, 2017, before making a decision about investing in our securities. The risks and uncertainties discussed below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 are not the only ones facing us. Additional risks and uncertainties not presently know to us, or that we currently see as immaterial, may also harm our business. If any of these risks occur, our business, financial condition and operating results could be harmed, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to this Offering and Our Common Stock

The price of our common stock historically has been volatile, which may affect the price at which you could sell the common stock.

The market price for our common stock has varied between a high price of $174.78 on December 8, 2017 and a low price of $60.95 on January 3, 2017 in the twelve-month period ending on December 8, 2017. This volatility may affect the price at which you could sell the common stock. Our stock price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market and other factors, including the other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2016, our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 or in future periodic reports; variations in our quarterly operating results from our expectations or those of securities analysts or investors; downward revisions in securities analysts estimates; and announcement by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments.

We have broad discretion in the use of the net proceeds from this offering and our existing cash and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering, including for any of the purposes described in the section entitled Use of Proceeds, as well as our existing cash, and you will be relying on the judgment of our management regarding such application. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. Our management may not apply the net proceeds or our existing cash in ways that ultimately increase the value of your investment. If we do not invest or apply the net proceeds from this offering or our existing cash in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline. Pending their use, we may invest the net proceeds from this offering in short-term, investment- grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

Investors purchasing shares of common stock in this offering will pay a price per share that substantially exceeds the pro forma book value per share of our tangible assets as of September 30, 2017 after subtracting our liabilities. As a result, investors purchasing shares of common stock in this offering will incur immediate dilution of $137.07 per share, based on the difference between the assumed public offering price of $171.15 per share, the closing price on the

Nasdaq Global Select Market on December 8, 2017, and the as adjusted pro forma net tangible book value per share of our outstanding common stock as of September 30, 2017.

This dilution is due to the substantially lower price paid by our investors who purchased shares prior to this offering as compared to the price offered to the public in this offering, and the exercise of stock options granted to our employees. In addition, as of September 30, 2017, options to purchase 4,015,728 shares of our common stock at a weighted average exercise price of $63.62 per share were outstanding. The exercise of any of these options would result in additional dilution. As a result of the dilution to investors purchasing shares in this offering, investors may receive significantly less than the purchase price paid in this offering, if anything, in the event of our liquidation. Further, because we will need to raise additional capital to fund our clinical development programs, we may in the future sell substantial amounts of common stock or securities convertible into or exchangeable for common stock.

These future issuances of common stock or common stock-related securities, together with the exercise of outstanding options and any additional shares issued in connection with acquisitions, if any, may result in further dilution. For a further description of the dilution that you will experience immediately after this offering, see Dilution.

Sales of a substantial number of shares of our common stock in the public market could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

In addition, the sale of substantial amounts of our common stock could adversely impact its price. As of September 30, 2017, we had outstanding 45,785,053 shares of our common stock. As of September 30, 2017, we had outstanding options to purchase 4,015,728 shares of our common stock (of which 2,036,608 were exercisable as of that date). The sale or the availability for sale of a large number of shares of our common stock in the public market could cause the price of our common stock to decline.

We have agreed that for a period of 60 days after the date of this prospectus supplement, and our directors and executive officers have agreed that for a period of 45 days after the date of this prospectus supplement, subject to specified exceptions, we or they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock. These lock-up periods affect approximately 249,872 shares of our common stock held by our directors and executive officers as of the date of this prospectus supplement. Sales of stock by any of our directors, executive officers or principal stockholders could have a material adverse effect on the trading price of our common stock.

Certain holders of shares of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act. See Description of Capital Stock Registration Rights. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

The market price of our common stock may be adversely affected by market conditions affecting the stock markets in general, including price and trading fluctuations on the Nasdaq Global Select Market.

Market conditions may result in volatility in the level of, and fluctuations in, market prices of stocks generally and, in turn, our common stock and sales of substantial amounts of our common stock in the market, in each case being unrelated or disproportionate to changes in our operating performance. Any actual or perceived weakness in the

economy in general could increase the volatility of the stock market, which may adversely affect the market price of our common stock.

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Tax reform may significantly affect our operations and stockholders.

The Trump Administration and the U.S. Congress are considering substantial revisions to U.S. federal income tax law, and such revisions could significantly impact our company and our operations. There is substantial uncertainty around the likelihood, timing and details of any such tax reform being enacted, but any such reform, if enacted, could have a significant impact on our company and its stockholders. Potential investors should consult their tax advisors about such developments, and their potential impact before investing in our securities.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of shares of common stock that we are selling in this offering will be approximately $569.7 million based on the assumed sale of 3,505,696 shares of our common stock offered hereby, or approximately $655.2 million if the underwriters exercise in full their option to purchase an assumed 525,854 additional shares of common stock, at an assumed public offering price of $171.15 per share, the closing price of our common stock on the Nasdaq Global Select Market on December 8, 2017, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds of this offering as follows:

- To fund the potential exercise of our option to co-develop and co-promote our bb2121 product candidate, which has been exclusively licensed by Celgene Corporation, in the United States following the completion of the ongoing Phase I clinical study;

- To fund our Phase I clinical study of our bb21217 product candidate in multiple myeloma;

- To fund HGB-212, our Phase III clinical study of our LentiGlobin product candidate in patients with TDT who have a $ß^0/ß^0$ genotype;

- To further build our commercial infrastructure in support of potential commercial launch of LentiGlobin in TDT in the United States and Europe pending regulatory approvals in the United States and Europe, including the completion of our internal manufacturing capacity;

- To fund potential future development of our sickle cell program;

- To fund the continued research and development of additional CAR T and TCR product candidates in oncology; and

- To further expand our manufacturing platform and capabilities to support our ongoing and anticipated product development efforts, and in anticipation of a potential commercial launch.

We expect to use any remaining net proceeds from this offering for general and administrative expenses (including personnel-related costs), potential future development programs, early-stage research and development, capital expenditures and working capital and other general corporate purposes.

Our expected use of net proceeds from this offering represents our current intentions based upon our present plans and business condition. As of the date of this prospectus supplement, we cannot predict with certainty all of the particular uses for the net proceeds to be received upon the completion of this offering or the amounts that we will actually spend on the uses set forth above. We may also use a portion of the net proceeds to in-license, acquire or invest in complementary gene therapy or immuno-oncology businesses, technologies, products or assets. Due to the many

variables inherent to the development of gene therapy products at this time, such as the timing of patient enrollment and evolving regulatory requirements, we cannot currently predict the stage of development we expect the net proceeds of this offering to achieve for our clinical studies and product candidates.

The amount and timing of our actual expenditures will depend upon numerous factors, including the results of our research and development efforts, the timing and success of preclinical studies, our ongoing clinical studies or clinical studies we may commence in the future and the timing of regulatory submissions. As a result, our management will have broad discretion over the use of the net proceeds from this offering.

Pending the use of the net proceeds from this offering, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities, certificates of deposit or government securities.

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DILUTION

If you invest in our common stock in this offering, your ownership interest will be diluted to the extent of the difference between the price per share of our common stock in this offering and the as adjusted net tangible book value per share of our common stock immediately after this offering.

As of September 30, 2017, we had net tangible book value of approximately $1.1 billion, or $24.25 per share of our common stock, based upon 45,785,053 shares of our common stock outstanding as of that date. Historical net tangible book value per share is equal to our total tangible assets, less total liabilities, divided by the number of outstanding shares of our common stock. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of our common stock immediately after this offering.

After giving effect to the assumed sale of 3,505,696 shares of common stock in this offering at an assumed public offering price of $171.15 per share (the last reported sale price on the Nasdaq Global Select Market on December 8, 2017), and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our as adjusted net tangible book value as of September 30, 2017 would have been approximately $1.7 billion, or approximately $34.08 per share of common stock. This represents an immediate increase in as adjusted net tangible book value of $9.83 per share to our existing stockholders and an immediate dilution of $137.07 per share to investors participating in this offering at the public offering price. The following table illustrates this per share dilution:

Assumed public offering price per share		$ 171.15
Historical net tangible book value per share as of September 30, 2017	$ 24.25	
Increase in net tangible book value per share attributable to new investors	$ 9.83	
As adjusted net tangible book value per share after this offering		$ 34.08
Dilution per share to new investors		$ 137.07

Each $1.00 increase (decrease) in the assumed public offering price of $171.15 per share, the last reported sale price of our common stock on the Nasdaq Global Select Market on December 8, 2017, would (decrease) increase the number of shares of common stock to be issued by us in this offering by (20,363) and 20,604, respectively, assuming the aggregate dollar amount of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same. We may also increase or decrease the aggregate dollar amount of shares we are offering. The as adjusted information discussed above is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

The foregoing table and discussion is based on 45,785,053 shares of common stock outstanding as of September 30, 2017, and excludes:

- 4,015,728 shares of common stock issuable upon the exercise of stock options outstanding as of September 30, 2017, at a weighted average exercise price of $63.62 per share;

- 455,672 shares of common stock issuable upon the vesting of restricted stock units outstanding as of September 30, 2017;

- 1,699,219 shares of common stock reserved for future issuance under the 2013 Plan as of September 30, 2017; and

- 188,344 shares of common stock reserved for future issuance under our 2013 Employee Stock Purchase Plan as of September 30, 2017.

If the underwriters exercise in full their option to purchase an assumed 525,854 additional shares of common stock at an assumed public offering price of $171.15 per share, the as adjusted net tangible book value

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after this offering would be $35.44 per share, representing an increase in net tangible book value of $11.19 per share to existing stockholders and immediate dilution in net tangible book value of $135.71 per share to investors purchasing our common stock in this offering at the public offering price.

To the extent that any options are exercised, new options are issued under our equity incentive plans, or we otherwise issue additional shares of common stock in the future (including shares issued in connection with acquisitions), there will be further dilution to new investors.

In addition, we may choose to raise additional capital due to market conditions or strategic considerations, even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

DESCRIPTION OF CAPITAL STOCK

This section describes the general terms of our common stock. For more detailed information, a holder of our common stock should refer to our certificate of incorporation and our by-laws, copies of which are filed with the SEC as exhibits to the registration statement of which this prospectus supplement and the accompanying prospectus are a part.

General

Our authorized capital stock consists of 125,000,000 shares of common stock, $0.01 par value per share, and 5,000,000 shares of preferred stock, $0.01 par value per share. As of September 30, 2017, there were 45,785,053 shares of our common stock outstanding and no shares of preferred stock were outstanding.

The following summary description of our capital stock is based on the provisions of our amended and restated certificate of incorporation and amended and restated bylaws and the applicable provisions of the Delaware General Corporation Law. This information is qualified entirely by reference to the applicable provisions of our amended and restated certificate of incorporation, amended and restated bylaws and the Delaware General Corporation Law.

Common Stock

Holders of our common stock are entitled to one vote for each share of common stock held of record for the election of directors and on all matters submitted to a vote of stockholders. Holders of our common stock are entitled to receive dividends ratably, if any, as may be declared by our board of directors out of legally available funds, subject to any preferential dividend rights of any preferred stock then outstanding. Upon our dissolution, liquidation or winding up, holders of our common stock are entitled to share ratably in our net assets legally available after the payment of all our debts and other liabilities, subject to the preferential rights of any preferred stock then outstanding. Holders of our common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. Except as described below in Anti-takeover Effects of Delaware Law, our Certificate of Incorporation and our By-Laws, a majority vote of common stockholders is generally required to take action under our certificate of incorporation and by-laws.

Preferred Stock

Pursuant to our amended and restated certificate of incorporation, our board of directors has the authority, without further action by the stockholders (unless such stockholder action is required by applicable law or Nasdaq rules), to designate and issue up to 5,000,000 shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the rights, preferences and privileges of the shares of each wholly unissued series, and any qualifications, limitations or restrictions thereon, and to increase or decrease the number of shares of any such series, but not below the number of shares of such series then outstanding.

We will fix the rights, preferences and privileges of the preferred stock of each such series, as well as any qualifications, limitations or restrictions thereon, in the certificate of designation relating to that series. In the event that we offer shares of preferred stock in the future, we will file as an exhibit to the registration statement of which this prospectus supplement and the accompanying prospectus are a part, or will incorporate by reference from reports that we file with the SEC, the form of any certificate of designation that describes the terms of the series of preferred stock we are offering before the issuance of that series of preferred stock.

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Registration Rights

Prior to the initial public offering of our common stock, we entered into an amended and restated investors rights agreement with certain of our stockholders of shares of our common stock issuable upon conversion of the shares of preferred stock. Under the amended and restated investors rights agreement, holders of registrable shares can demand that we file a registration statement or request that their shares be included on a registration statement that we are otherwise filing, in either case, registering the resale of their shares of common stock. These registration rights are subject to conditions and limitations, including the right, in certain circumstances, of the underwriters of an offering to limit the number of shares included in such registration and our right, in certain circumstances, not to effect a requested S-1 registration within 60 days before or 180 days following any offering of our securities, including this offering or a requested S-3 registration within 30 days before or 90 days following any offering of our securities, including this offering.

Demand Registration Rights

The holders of registrable shares may require us to file a registration statement under the Securities Act on a Form S-3, if available, at our expense with respect to the resale of their registrable shares, and we are required to use our best efforts to effect the registration.

Piggyback Registration Rights

If we propose to register any of our securities under the Securities Act for our own account or the account of any other holder, the holders of registrable shares are entitled to notice of such registration and to request that we include registrable shares for resale on such registration statement, subject to the right of any underwriter to limit the number of shares included in such registration.

We will pay all registration expenses, other than underwriting discounts and commissions, related to any demand or piggyback registration. The amended and restated investors rights agreement contains customary cross-indemnification provisions, pursuant to which we are obligated to indemnify the selling stockholders, in the event of misstatements or omissions in the registration statement attributable to us except in the event of fraud and they are obligated to indemnify us for misstatements or omissions attributable to them. The registration rights will terminate upon the later of (1) such time as Rule 144 or another similar exemption under the Securities Act is available for the sale of all the registrable shares of a holder during a three-month period without registration, and (2) the fifth anniversary of the closing date of our initial public offering.

Anti-takeover Effects of Delaware Law, our Certificate of Incorporation and our By-Laws

Our certificate of incorporation and by-laws include a number of provisions that may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include the items described below.

Board Composition and Filling Vacancies

In accordance with our certificate of incorporation, our board is divided into three classes serving three-year terms, with one class being elected each year. Our certificate of incorporation also provides that directors may be removed only for cause and then only by the affirmative vote of the holders of 75% or more of the shares then entitled to vote at an election of directors. Furthermore, any vacancy on our board of directors, however occurring, including a vacancy resulting from an increase in the size of our board, may only be filled by the affirmative vote of a majority of

our directors then in office, even if less than a quorum.

No Written Consent of Stockholders

Our certificate of incorporation provides that all stockholder actions are required to be taken by a vote of the stockholders at an annual or special meeting, and that stockholders may not take any action by written consent in lieu of a meeting.

Meetings of Stockholders

Our by-laws provide that only a majority of the members of our board of directors then in office may call special meetings of stockholders and only those matters set forth in the notice of the special meeting may be considered or acted upon at a special meeting of stockholders. Our by-laws limit the business that may be conducted at an annual meeting of stockholders to those matters properly brought before the meeting.

Advance Notice Requirements

Our by-laws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as directors or new business to be brought before meetings of our stockholders. These procedures provide that notice of stockholder proposals must be timely given in writing to our corporate secretary prior to the meeting at which the action is to be taken. Generally, to be timely, notice must be received at our principal executive offices not less than 90 days or more than 120 days prior to the first anniversary date of the annual meeting for the preceding year. The notice must contain certain information specified in the by-laws. These provisions may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of our company.

Amendment to By-Laws and Certificate of Incorporation

As required by the Delaware General Corporation Law, any amendment of our certificate of incorporation must first be approved by a majority of our board of directors and, if required by law or our certificate of incorporation, thereafter be approved by a majority of the outstanding shares entitled to vote on the amendment, and a majority of the outstanding shares of each class entitled to vote thereon as a class, except that the amendment of the provisions relating to stockholder action, directors, limitation of liability, exclusive jurisdiction of Delaware Courts and the amendment of our by-laws and certificate of incorporation must be approved by not less than 75% of the outstanding shares entitled to vote on the amendment, and not less than 75% of the outstanding shares of each class entitled to vote thereon as a class. Our by-laws may be amended by the affirmative vote of a majority of the directors then in office, subject to any limitations set forth in the by-laws; and may also be amended by the affirmative vote of at least 75% of the outstanding shares entitled to vote on the amendment, or, if the board of directors recommends that the stockholders approve the amendment, by the affirmative vote of the majority of the outstanding shares entitled to vote on the amendment, in each case voting together as a single class.

Blank Check Preferred Stock

Our certificate of incorporation provides for 5,000,000 authorized shares of preferred stock. The existence of authorized but unissued shares of preferred stock may enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise. For example, if in the due exercise of its fiduciary obligations, our board of directors were to determine that a takeover proposal is not in the best interests of us or our stockholders, our board of directors could cause shares of preferred stock to be issued without stockholder approval in one or more private offerings or other transactions that might dilute

the voting or other rights of the proposed acquirer or insurgent stockholder or stockholder group. In this regard, our certificate of incorporation grants our board of directors broad power to establish the

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rights and preferences of authorized and unissued shares of preferred stock. The issuance of shares of preferred stock could decrease the amount of earnings and assets available for distribution to holders of shares of common stock. The issuance may also adversely affect the rights and powers, including voting rights, of these holders and may have the effect of delaying, deterring or preventing a change in control of us.

Section 203 of the Delaware General Corporation Law

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a three-year period following the time that this stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation s voting stock.

Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or

- at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

A Delaware corporation may opt out of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or by-laws resulting from a stockholders amendment approved by at least a majority of the outstanding voting shares. We have not opted out of these provisions. As a result, mergers or other takeover or change in control attempts of us may be discouraged or prevented.

Exclusive Jurisdiction of Certain Actions

Our certificate of incorporation requires that, to the fullest extent permitted by law, derivative actions brought in our name, actions against our directors, officers and employees for breach of fiduciary duty and other similar actions may be brought only in the Court of Chancery in the State of Delaware, unless we otherwise consent. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC.

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PRICE RANGE OF COMMON STOCK

Our common stock is listed on the Nasdaq Global Select Market under the symbol BLUE . The following table sets forth the high and low sale prices per share of our common stock as reported by the Nasdaq Global Select Market for the periods indicated:

	Sales prices	
	High	**Low**
Year ended December 31, 2015		
First Quarter	$ 128.88	$ 83.00
Second Quarter	$ 197.35	$ 116.00
Third Quarter	$ 171.24	$ 82.05
Fourth Quarter	$ 106.95	$ 48.85
Year ended December 31, 2016		
First Quarter	$ 65.00	$ 37.40
Second Quarter	$ 53.38	$ 35.37
Third Quarter	$ 74.95	$ 43.10
Fourth Quarter	$ 79.70	$ 37.05
Year ending December 31, 2017		
First Quarter	$ 100.40	$ 60.95
Second Quarter	$ 123.75	$ 74.45
Third Quarter	$ 143.50	$ 85.65
Fourth Quarter (through December 8, 2017)	$ 174.78	$ 119.90

As of September 30, 2017, there were approximately ten record holders of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be made at the discretion of our board of directors.

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UNDERWRITING

We and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman Sachs & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and Cowen and Company, LLC are the representatives of the underwriters.

Underwriters	Number of Shares
Goldman Sachs & Co. LLC	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
J.P. Morgan Securities LLC	
Cowen and Company, LLC	
Total	

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

The underwriters have an option to buy up to approximately $90,000,000 of additional shares from us. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares.

Paid by the Company	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Shares sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the public offering price. After the initial offering of the shares, the representatives may change the offering price and the other selling terms. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part.

Except with the prior written consent of the representatives, we have agreed with the underwriters that for a period of 60 days after the date of this prospectus supplement, and our directors and executive officers have agreed with the underwriters that for a period of 45 days after the date of this prospectus supplement, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock, subject to certain exceptions. This agreement does not apply to any existing employee benefit plans.

The restrictions described in the immediately preceding paragraph do not apply to directors and executive officers with respect to:

- transfers (1) as a bona fide gift, (2) to a trust or limited family partnership for the direct or indirect benefit of the security holder, or (3) by will, other testamentary document or intestate succession to the legal representative, heir, beneficiary or a member of the immediate family of the undersigned in a transaction not involving a disposition for value; provided that in each case (subject to a certain limited

exception), each transferee, trustee, donee or distributee shall sign and deliver a lock-up agreement and no filing under Section 16(a) of the Exchange Act reporting a reduction in beneficial ownership of shares of common stock shall be required or shall be voluntarily made during the restricted period;

transactions relating to shares of common stock acquired in open market transactions after the completion of this offering;

transfers of common stock pursuant to a trading plan established pursuant to Rule 10b5-1 under the Exchange Act prior to the date hereof, which trading plan shall not be amended, but may be terminated, during the restricted period; and

the establishment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of common stock, provided that such plan does not provide for the transfer of common stock during the restricted period.

In addition, the restrictions described above do not apply to us with respect to:

the shares of common stock to be sold by us in this offering;

the issuance by us of shares of common stock upon the exercise of an option or warrant;

the issuance by us of shares or options to purchase shares of common stock pursuant to our equity plans;

the filing by us of a registration statement on Form S-8 or a successor form thereto; and

the issuance by us of shares issued in connection with a transaction with an unaffiliated third party that includes a bona fide commercial relationship (including joint ventures, marketing or distribution arrangements, collaboration agreements or intellectual property license agreements) or any acquisition of assets or not less than a majority or controlling portion of the equity of another entity; provided that the aggregate number of shares issued shall not exceed ten percent of the total number of outstanding shares of our common stock immediately following this offering; provided further that the recipient of any such shares during the 60-day restricted period described above shall enter into an agreement providing for transfer restrictions as set forth above.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase

in the offering, and a short position represents the amount of such sales that have not been covered by subsequent purchases. A covered short position is a short position that is not greater than the amount of additional shares for which the underwriters option described above may be exercised. The underwriters may cover any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to cover the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option described above. Naked short sales are any short sales that create a short position greater than the amount of additional shares for which the option described above may be exercised. The underwriters must cover any such naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

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The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of our stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. The underwriters are not required to engage in these activities and may end any of these activities at any time. These transactions may be effected on the Nasdaq Global Select Market, in the over-the-counter market or otherwise.

The Company may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. In connection with those derivatives, the third parties may sell securities covered by this prospectus, including in short sale transactions. If so, the third party may use securities pledged by the Company or borrowed from the Company or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from the Company in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter or will be identified in a post-effective amendment.

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $300,000.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relative Member State) an offer to the public of our common shares may not be made in that

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Relevant Member State, except that an offer to the public in that Relevant Member State of our common shares may be made at any time under the following exemptions under the Prospectus Directive:

To any legal entity which is a qualified investor as defined in the Prospectus Directive;

To fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the representatives for any such offer; or

In any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer or shares of our common stock shall result in a requirement for the publication by us or any Brazilian placement agent of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer to public in relation to our common shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our common shares to be offered so as to enable an investor to decide to purchase our common shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (as amended), including by Directive 2010/73/EU and includes any relevant implementing measure in the Relevant Member State.

This European Economic Area selling restriction is in addition to any other selling restrictions set out below.

United Kingdom

In the United Kingdom, this prospectus is only addressed to and directed as qualified investors who are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order); or (ii) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). Any investment or investment activity to which this prospectus relates is available only to relevant persons and will only be engaged with relevant persons. Any person who is not a relevant person should not act or relay on this prospectus or any of its contents.

Canada

The securities may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions, and Ongoing Registrant Obligations. Any resale of the securities must be made in accordance with an exemption form, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser s province or territory. The purchaser should refer to any applicable

provisions of the securities legislation of the purchaser s province or territory of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

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Hong Kong

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) (Companies (Winding Up and Miscellaneous Provisions) Ordinance) or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (Securities and Futures Ordinance), or (ii) to professional investors as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined under Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the SFA)) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, the securities (as defined in Section 239(1) of the SFA) of that corporation shall not be transferable for 6 months after that corporation has acquired the shares under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer in that corporation s securities pursuant to Section 275(1A) of the SFA, (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (Regulation 32)

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, the beneficiaries rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that trust has acquired the shares under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer that is made on terms that such rights or interest are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction (whether such amount is to be paid for in cash or by exchange of securities or other assets), (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in

Section 276(7) of the SFA, or (6) as specified in Regulation 32.

Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the FIEA. The securities may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any relevant laws and regulations of Japan.

Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company or the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market.

Dubai International Financial Centre

This prospectus supplement relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority, or the DFSA. This prospectus supplement is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus supplement nor taken steps to verify the information set forth herein and has no responsibility for the prospectus supplement. The shares to which this prospectus supplement relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus supplement you should consult an authorized financial advisor.

Israel

In the State of Israel this prospectus supplement shall not be regarded as an offer to the public to purchase shares of common stock under the Israeli Securities Law, 5728-1968, which requires a prospectus to be published and authorized by the Israel Securities Authority, if it complies with certain provisions of Section 15 of the Israeli Securities Law, 5728-1968, including, inter alia, if: (i) the offer is made, distributed or directed to not more than 35 investors, subject to certain conditions (the Addressed Investors); or (ii) the offer is made, distributed or directed to certain qualified investors defined in the First Addendum of the Israeli Securities Law, 5728-1968, subject to certain conditions (the Qualified Investors). The Qualified Investors shall not be taken into account in the count of the Addressed Investors and may be offered to purchase securities in addition to the 35 Addressed Investors. The Company has not and will not take any action that would require it to publish a prospectus in accordance with and subject to the Israeli Securities Law, 5728-1968. The Company and the underwriters have not and will not distribute this prospectus supplement or make, distribute or direct an offer to subscribe for our common stock to any person

within the State of Israel, other than to Qualified Investors and up to 35 Addressed Investors.

Qualified Investors may have to submit written evidence that they meet the definitions set out in of the First Addendum to the Israeli Securities Law, 5728-1968. In particular, we may request, as a condition to be offered

common stock, that Qualified Investors will each represent, warrant and certify to us and/or to anyone acting on our behalf: (i) that it is an investor falling within one of the categories listed in the First Addendum to the Israeli Securities Law, 5728-1968; (ii) which of the categories listed in the First Addendum to the Israeli Securities Law, 5728-1968 regarding Qualified Investors is applicable to it; (iii) that it will abide by all provisions set forth in the Israeli Securities Law, 5728-1968 and the regulations promulgated thereunder in connection with the offer to be issued common stock; (iv) that the shares of common stock that it will be issued are, subject to exemptions available under the Israeli Securities Law, 5728-1968: (a) for its own account; (b) for investment purposes only; and (c) not issued with a view to resale within the State of Israel, other than in accordance with the provisions of the Israeli Securities Law, 5728-1968; and (v) that it is willing to provide further evidence of its Qualified Investor status. Addressed Investors may have to submit written evidence in respect of their identity and may have to sign and submit a declaration containing, inter alia, the Addressed Investor s name, address and passport number or Israeli identification number.

Australia

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission (ASIC), in relation to the offering. This prospectus does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001 (the Corporations Act), and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.

Any offer in Australia of the shares may only be made to persons (the Exempt Investors) who are sophisticated investors (within the meaning of section 708(8) of the Corporations Act), professional investors (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the shares without disclosure to investors under Chapter 6D of the Corporations Act.

The shares applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring shares must observe such Australian on-sale restrictions.

This prospectus contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person. It does not contain any securities recommendations or financial product advice. Before making an investment decision, investors need to consider whether the information in this prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax considerations of the ownership and disposition of our common stock to non-U.S. holders (as defined below), but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed or subject to differing interpretations, possibly with retroactive effect, so as to result in U.S. federal income tax considerations different from those set forth below. In addition, the Trump Administration has proposed significant changes to U.S. federal income tax laws, and Congress is currently considering these and other tax reform proposals. We cannot assure you that a change in law will not impact the tax considerations that we describe in this summary. We have not sought any ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary also does not address the tax considerations arising under the laws of any U.S. state or local or any non-U.S. jurisdiction, the Medicare tax on net investment income or any alternative minimum tax considerations. In addition, this discussion does not address tax considerations applicable to an investor s particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies or other financial institutions;
- tax-exempt organizations;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock;
- certain former citizens or long-term residents of the United States;
- persons who hold our common stock as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction;
- persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, for investment purposes);
- persons deemed to sell our common stock under the constructive sale provisions of the Code;

- regulated investment companies;
- pension plans;
- controlled foreign corporations;
- passive foreign investment companies; or
- persons that acquire our common stock as compensation for services.

In addition, if a partnership, including any entity or arrangement classified as a partnership for U.S. federal income tax purposes, holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors.

You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any U.S. state or local or any non-U.S. or other taxing jurisdiction or under any applicable tax treaty.

Non-U.S. Holder Defined

For purposes of this discussion, you are a non-U.S. holder if you are a beneficial owner of our common stock that is for U.S. federal income tax purposes (i) a foreign corporation, (ii) a nonresident alien individual, or (iii) a foreign estate or trust that in either case is not subject to U.S. federal income tax on a net-income basis on income or gain from a note or share of common stock.

Distributions

If we make distributions on our common stock, those payments will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero. Any remaining excess will be treated as gain from the sale of stock and will be subject to the tax treatment described below in Gain on Sale or Other Disposition of Common Stock. Any such distributions will also be subject to the discussions below regarding backup withholding and FATCA.

Any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us with an IRS Form W-8BEN (generally including a U.S. taxpayer identification number), IRS Form W-8BEN-E or another appropriate version of IRS Form W-8 (or a successor form), in each case, certifying qualification for the reduced rate.

Dividends received by you that are effectively connected with the conduct of a U.S. trade or business (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by you in the United States) generally are exempt from such withholding tax. In order to obtain this exemption, you must provide us with an IRS Form W-8ECI or successor form or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits, subject to an applicable income tax treaty providing otherwise. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by you in the United States) may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

If you are eligible for a reduced rate of withholding tax pursuant to a tax treaty, you may be able to obtain a refund of any excess amounts currently withheld if you file an appropriate claim for refund with the IRS.

Gain on Sale or Other Disposition of Common Stock

Subject to the discussions below regarding backup withholding and FATCA, a non-U.S. holder generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with the conduct of a U.S. trade or business (and, if an income tax treaty applies, the gain is attributable to a permanent establishment maintained by you in the U.S.), in which case you will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal

income tax rates, and for a non-U.S. holder that is a corporation, such non-U.S. holder may be subject to the branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty;

you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met, in which case you will be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses (even though you are not considered a resident of the United States) (subject to applicable income tax or other treaties); or

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our common stock constitutes a U.S. real property interest by reason of our status as a U.S. real property holding corporation for U.S. federal income tax purposes, a USRPHC, at any time within the shorter of the five-year period preceding the disposition or your holding period for our common stock. Generally, a corporation is a USRPHC only if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we are not currently or will not become a USRPHC in the future. Even if we are or were to become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the applicable period that is specified in the Code.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report will be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends or of proceeds on the disposition of stock made to you may be subject to additional information reporting and backup withholding at a current rate of 28% unless you establish an exemption, for example by properly certifying your non-U.S. status on an IRS Form W-8BEN, IRS Form W-8BEN-E or another appropriate version of IRS Form W-8 (or a successor form). Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Foreign Account Tax Compliance Act (FATCA)

Provisions commonly referred to as FATCA may impose withholding tax on certain types of payments made to foreign financial institutions and certain other non-U.S. entities. The legislation imposes a 30% withholding tax on dividends on, or gross proceeds from the sale or other disposition of, our common stock paid to a foreign financial institution or to certain non-financial foreign entities, unless (i) the foreign financial institution undertakes certain diligence and reporting obligations or (ii) the non-financial foreign entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner and such entity meets certain other specified requirements. If the payee is a foreign financial institution, it must enter into an agreement with the U.S. Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements. If the country in which a payee is resident has entered into an intergovernmental agreement with the United States regarding FATCA, that agreement may permit the payee to report to that country rather than to the U.S. Treasury. Under applicable U.S. Treasury regulations, withholding under FATCA may apply to payments of dividends on our common stock, but may only apply to payments of gross proceeds from a sale or other disposition of our common stock made after December 31, 2018. Under certain circumstances, a non-U.S. holder may be eligible for

refunds or credits of this withholding tax. Prospective investors should consult their tax advisors regarding FATCA.

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The preceding discussion of U.S. federal tax considerations is for general information only. It is not tax advice. Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local and non-U.S. tax consequences of purchasing, holding and disposing of our common stock, including the consequences of any proposed change in applicable laws.

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LEGAL MATTERS

Certain legal matters with respect to the securities offered by this prospectus supplement will be passed upon for us by Goodwin Procter LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the underwriters by Ropes & Gray LLP, Boston, Massachusetts.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016, and the effectiveness of our internal control over financial reporting as of December 31, 2016, as set forth in their reports, which are incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements are incorporated by reference in reliance on Ernst & Young LLP s reports, given on their authority as experts in accounting and auditing.

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PROSPECTUS

bluebird bio, Inc.

Common Stock

Preferred Stock

Warrants

Units

Debt Securities

By this prospectus, we or any selling stockholder may offer and sell from time to time, in one or more offerings, common stock, preferred stock, warrants, debt securities or any combination thereof as described in this prospectus. The warrants may be convertible into or exercisable or exchangeable for common stock or preferred stock, the preferred stock may be convertible into or exchangeable for common stock and the debt securities may be convertible into or exchangeable for common stock or preferred stock. You should carefully read this prospectus, any prospectus supplement and any free writing prospectus, as well as any documents incorporated in any of the foregoing by reference, before you invest in our securities. This prospectus may not be used to sell our securities unless accompanied by a prospectus supplement. The prospectus supplement or any related free writing prospectus may also add to, update, supplement or clarify information contained in this prospectus.

Our common stock is traded on the NASDAQ Global Select Market under the symbol BLUE.

We or any selling stockholder may offer and sell our securities to or through one or more agents, underwriters, dealers or other third parties or directly to one or more purchasers on a continuous or delayed basis. If agents, underwriters or dealers are used to sell our securities, we or any selling stockholder will name them and describe their compensation in a prospectus supplement. The price to the public of our securities and the net proceeds we expect to receive from the sale of such securities will also be set forth in a prospectus supplement. We will not receive any proceeds from the sale of securities by selling stockholders.

INVESTING IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD REVIEW CAREFULLY THE RISKS AND UNCERTAINTIES REFERENCED UNDER THE HEADING RISK FACTORS ON PAGE 5 OF THIS PROSPECTUS AS WELL AS THOSE CONTAINED IN THE APPLICABLE PROSPECTUS SUPPLEMENT AND ANY RELATED FREE WRITING PROSPECTUS, AND IN THE OTHER DOCUMENTS THAT ARE INCORPORATED BY REFERENCE INTO THIS PROSPECTUS OR THE APPLICABLE PROSPECTUS SUPPLEMENT.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 22, 2017.

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We are responsible for the information contained and incorporated by reference in this prospectus, in any accompanying prospectus supplement, and in any related free writing prospectus we prepare or authorize. We have not authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this documentation are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document, unless the information specifically indicates that another date applies. Our business, financial condition, results of operations and prospectus may have changed since those dates.

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ABOUT THIS PROSPECTUS

This prospectus is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission, or the SEC, as a well-known seasoned issuer as defined in Rule 405 under the Securities Act of 1933, as amended, or the Securities Act. Under this shelf registration, we and/or selling stockholders may offer shares of our common stock and preferred stock, various series of warrants to purchase common stock or preferred stock, debt securities or any combination thereof, from time to time in one or more offerings. This prospectus only provides you with a general description of the securities we and/or selling stockholders may offer. Each time we and/or selling stockholders offer a type or series of securities under this prospectus, we will provide a prospectus supplement that will contain more specific information about the specific terms of the offering. We may also authorize one or more free writing prospectuses to be provided to you that may contain material information relating to these offerings. This prospectus may not be used to sell our securities unless accompanied by a prospectus supplement. Each such prospectus supplement and any free writing prospectus that we may authorize to be provided to you may also add, update or change information contained in this prospectus or in documents incorporated by reference into this prospectus. We urge you to carefully read this prospectus, any applicable prospectus supplement and any related free writing prospectus, together with the information incorporated herein by reference as described under the headings Where You Can Find Additional Information and Incorporation of Certain Information by Reference before you invest in our securities.

Neither we nor any selling stockholder have authorized anyone to provide you with information in addition to or different from that contained in this prospectus, any applicable prospectus supplement and any related free writing prospectus. We take no responsibility for, and can provide no assurances as to the reliability of, any information not contained in this prospectus, any applicable prospectus supplement or any related free writing prospectus that we or a selling stockholder may authorize to be provided to you. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus, any applicable prospectus supplement or any related free writing prospectus is accurate only as of the date on the front of the document and that any information incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus, any applicable prospectus supplement or any related free writing prospectus, or any sale of a security.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under the heading Where You Can Find Additional Information.

Unless otherwise mentioned or unless the context requires otherwise, throughout this prospectus, any applicable prospectus supplement and any related free writing prospectus, the words bluebird bio, we, us, our, the company similar references refer to bluebird bio, Inc. and its subsidiaries; and the term securities refers collectively to our common stock, preferred stock, warrants to purchase common stock or preferred stock, debt securities, or any combination of the foregoing securities.

We use Lenti-D and the bluebird bio logo as trademarks in the United States and other countries. We use and have registered LentiGlobin and bluebird bio in the United States. This prospectus and the information incorporated herein by reference contains references to trademarks, service marks and trade names owned by us or other companies. Solely for convenience, trademarks, service marks and trade names referred to in this prospectus and the information incorporated herein, including logos, artwork, and other visual displays, may appear without the ® or symbols, but

such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these

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trademarks, service marks and trade names. We do not intend our use or display of other companies trade names, service marks or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies. All trademarks, service marks and trade names included or incorporated by reference into this prospectus, any applicable prospectus supplement or any related free writing prospectus are the property of their respective owners.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

This prospectus is part of a registration statement that we have filed with the SEC. Certain information in the registration statement has been omitted from this prospectus in accordance with the rules of the SEC. We are subject to the information requirements of the Securities Exchange Act of 1934 (as amended, the Exchange Act), and, in accordance therewith, file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. These documents also may be accessed through the SEC s Electronic Data Gathering, Analysis and Retrieval system, or EDGAR, via electronic means, including the SEC s home page on the Internet (*www.sec.gov*).

We have the authority to designate and issue more than one class or series of stock having various preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption. See Description of Securities. We will furnish a full statement of the relative rights and preferences of each class or series of our stock which has been so designated and any restrictions on the ownership or transfer of our stock to any stockholder upon request and without charge. Written requests for such copies should be directed to bluebird bio, Inc., 150 Second Street, Third Floor, Cambridge, Massachusetts 02141, Attention: Secretary, or by telephone request to (339) 499-9300. Our website is located at *http://www.bluebirdbio.com*. Information contained on our w>

Accumulated

Additional

Retained

Discount on

Other

Preferred

Common

Paid-in

Earnings

Preferred

Comprehensive

Stock

Stock

Capital

(Deficit)

Warrant

Stock

Income (loss)

Total

Balance, December 31, 2012
$58,952 $17,007,180 $40,705,257 $(33,173,525) $732,479 $(198,993) $(166,549) $24,964,801
Amortization of preferred stock
- -
discount
- (37,106) - 37,106 -
Preferred stock dividend
- - (184,222) - - - (184,222)
Issuance of common stock
- - - - - - - -
Stock based compensation
241 241
Minimum pension adjustment

(net of income taxes of $2,917)
- - - - - - 2,145 2,145
Net loss
- - - (511,034) - - - (511,034)
Change in unrealized gain on

investment securities available-for-sale,

net of reclassification and tax effect
- - - - - - (45,478) (45,478)
Balance, March 31, 2013
$58,952 $17,007,180 $40,705,498 $(33,905,887) $732,479 $(161,887) $(209,882) $24,226,453
Balance, December 31, 2011
$58,952 $16,973,512 $40,732,178 $(21,895,557) $732,479 $(346,473) $(7,449) $36,247,642
Amortization of preferred stock
- -
discount
- (36,729) - 36,729 -
Preferred stock dividend
- - (183,719) - - - (183,719)
Issuance of common stock

- 33,668 (33,668) - - - - -
Stock based compensation
1,589 1,589
Minimum pension adjustment

(net of income taxes of $2,917)
- - - - - - 2,145 2,145
Net loss
- - - (1,400,380) - - - (1,400,380)
Change in unrealized gain on

investment securities available-for-sale,

net of reclassification and tax effect
- - - - - - (357,431) (357,431)
Balance, March 31, 2012
$58,952 $17,007,180 $40,700,099 $(23,516,385) $732,479 $(309,744) $(362,735) $34,309,846
See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2013 and 2012
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Net loss	$(511,034)	$(1,400,380)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	258,649	344,244
Deferred income taxes	(108,145)	1,104
Valuation allowance	-	476,129
Provision for loan losses	823,000	1,735,000
Write-down of other real estate owned	397,053	670,023
Gain on securities sold	(90,067)	(164,207)
Gain on loans sold	(1,955,717)	(1,750,663)
Gain on sale of premises and equipment	(598,182)	-
(Gain) loss on sale of other real estate owned	129,821	4,355
Stock compensation expense	241	1,589
Proceeds from sale of mortgage loans	67,727,357	64,848,047
Origination of mortgage loans for sale	(57,961,082)	(64,120,807)
Amortization of premiums and accretion of discounts on securities, net	86,934	39,306
Decrease in interest receivable	96,371	146,743
Increase in bank owned life insurance	(50,307)	(50,392)
(Increase) decrease in other assets	730,900	2,899,037
Increase (decrease) in interest payable	69,892	74,487
Increase (decrease) in other liabilities	324,488	(2,959,078)
Net cash provided by operating activities	9,370,172	794,537
Cash Flows from Investing Activities		
Purchases of available for sale securities	(12,791,077)	(20,764,694)
Proceeds from the sale or calls of available for sale securities	8,244,304	14,277,005
Proceeds from maturities and principal payments of available for sale securities	-	874,715
Net decrease (increase) in loans	26,731,220	5,847,047
Proceeds from sale of other real estate owned	1,162,364	526,370
Purchases of premises and equipment	481,213	(44,839)
Proceeds from sale of premises and equipment	1,681,624	-
Net cash provided by investing activities	25,509,648	715,604
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	(14,903,717)	(20,127,993)
Net increase (decrease) in Federal Home Loan Bank Advances	(1,000,000)	(1,000,000)
Net increase (decrease) in other borrowings	(2,969,465)	(571,092)
Net cash used in financing activities	(18,873,182)	(21,699,085)

Net increase (decrease) in cash and cash equivalents	16,006,638	(20,188,944)
Cash and cash equivalents, beginning of period	53,130,942	62,786,016
Cash and cash equivalents, end of period	$69,137,580	$42,597,072
Supplemental Schedule of Non Cash Activities		
Real estate owned assets acquired in settlement of loans	$2,868,378	$6,614,046
Dividends on preferred stock accrued	$184,224	$183,719

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2013 and 2012
(Unaudited)

Note 1 - Principles of presentation

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

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the three month period ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year ending December 31, 2013. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission.

Note 2 - Use of estimates

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

Note 3 – Earnings (loss) per common share

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

	Three Months Ended March 31,	
	2013	2012
Numerator		
Net income (loss) - basic and diluted	$ (511,034)	$ (1,400,380)
Preferred stock dividend and accretion	221,328	220,448
Net income (loss) available to common shareholders	$ (732,362)	$ (1,620,828)
Denominator		
Weighted average shares outstanding - basic	4,253,932	4,249,336
Dilutive effect of common stock options and restricted stock awards	-	-
Weighted average shares outstanding - diluted	4,253,932	4,249,336
Earnings (loss) per share - basic and diluted		
Earnings (loss) per share - basic	$ (0.17)	$ (0.38)
Effect of dilutive common stock options	-	-
Earnings (loss) per share - diluted	$ (0.17)	$ (0.38)

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. Stock options for 254,630 and 264,530 shares of common stock were not included in computing diluted earnings per share for the three months ended March 31, 2013 and 2012, respectively, because their effects were anti-dilutive. Warrants for 499,029 shares of common stock were not included in computing earnings per share in 2013 and 2012 because their effects were also anti-dilutive.

Note 4 – Investment securities

At March 31, 2013 and December 31, 2012, all of our securities were classified as available for sale. The following table presents the composition of our investment portfolio at the dates indicated (dollars in thousands).

	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Yield
March 31, 2013						
US Government Agencies						
Five to ten years	$3,500	$4,375	$-	$(33)	$4,342	1.97%
More than ten years	12,000	11,715	40	-	11,755	2.91%
Total	15,500	16,090	40	(33)	16,097	2.65%
Mortgage-backed securities						
More than ten years	1,445	1,513	2	(2)	1,513	0.97%
Total	1,445	1,513	2	(2)	1,513	0.97%
Municipals						
Five to ten years	3,700	4,226	2	(26)	4,202	2.16%
More than ten years	6,280	7,984	3	(164)	7,823	2.27%
Total	9,980	12,210	5	(190)	12,025	2.23%
Total investment securities	$26,925	$29,813	$47	$(225)	$29,635	2.40%
December 31, 2012						
US Government Agencies						
More than ten years	$10,500	$11,394	$8	$(15)	$11,387	2.27%
Total	10,500	11,394	8	(15)	11,387	2.27%
Mortgage-backed securities						
More than ten years	1,744	1,830	1	(2)	1,829	0.97%
Total	1,744	1,830	1	(2)	1,829	0.97%
Municipals						
One to five years	1,000	1,100	-	(22)	1,078	3.25%
Five to ten years	3,500	4,031	-	(47)	3,984	2.29%
More than ten years	5,280	6,908	10	(42)	6,876	2.70%
Total	9,780	12,039	10	(111)	11,938	2.61%
Total investment securities	$22,024	$25,263	$19	$(128)	$25,154	2.34%

Investment securities available for sale that have an unrealized loss position at March 31, 2013 and December 31, 2012 are detailed below (in thousands):

	Securities in a loss Position for less than 12 Months		Securities in a loss Position for more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value (Loss)	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2013						
Investment Securities available for sale						
US Treasuries	$6,241	$(33)	$-	$-	$6,241	$(33)
Municipals	8,797	(190)	-	-	8,797	(190)
Mortgage-backed securities	162	(2)	-	-	162	(2)
Total	$15,200	$(225)	$-	$-	$15,200	$(225)
December 31, 2012						
Investment Securities available for sale						
US Treasuries	$4,378	$(15)	$-	$-	$4,378	$(15)
Municipals	8,064	(111)	-	-	8,064	(111)
Mortgage-backed securities	167	(2)	-	-	167	(2)
Total	$12,609	$(128)	$-	$-	$12,609	$(128)

Management does not believe that any individual unrealized loss as of March 31, 2013 and December 31, 2012 is other than a temporary impairment. These unrealized losses are primarily attributable to changes in interest rates. As of March 31, 2013, management does not have the intent to sell any of the securities classified as available for sale and management believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost.

Note 5 – Loans and allowance for loan losses

The following table presents the composition of our loan portfolio (excluding mortgage loans held for sale) at the dates indicated (dollars in thousands).

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Construction and land development				
Residential	$3,002	0.93 %	$2,845	0.80 %
Commercial	36,209	11.18 %	41,210	11.61 %
Total construction and land development	39,211	12.11 %	44,055	12.41 %
Commercial real estate				
Farmland	2,571	0.79 %	2,581	0.73 %
Commercial real estate - owner occupied	81,459	25.14 %	92,773	26.14 %
Commercial real estate - non-owner occupied	47,470	14.65 %	54,551	15.37 %
Multifamily	8,908	2.75 %	7,979	2.25 %
Total commercial real estate	140,408	43.33 %	157,884	44.49 %
Consumer real estate				
Home equity lines	24,614	7.60 %	25,521	7.19 %
Secured by 1-4 family residential, secured by first deeds of trust	78,796	24.32 %	80,788	22.76 %
Secured by 1-4 family residential, secured by second deeds of trust	8,668	2.67 %	9,517	2.68 %
Total consumer real estate	112,078	34.59 %	115,827	32.63 %
Commercial and industrial loans (except those secured by real estate)	29,647	9.15 %	34,384	9.69 %
Consumer and other	2,660	0.82 %	2,761	0.78 %
Total Loans	324,004	100.0 %	354,910	100.0 %
Deferred loan cost (unearned income), net	783		788	
Less: Allowance for loan losses	(10,320)		(10,808)	
	$314,467		$344,890	

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

- Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. 1-4 assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;
- Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;
- Risk rated 6 loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any, and;
- Risk rated 7 loans have all the weaknesses inherent in substandard loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The following tables provide information on the risk rating of loans at the dates indicated:

	March 31, 2013				
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
Construction and land development					
Residential	$2,794,616	$207,597	$-	$-	$3,002,213
Commercial	14,490,031	7,441,270	14,277,551	-	36,208,852
Total construction and land development	17,284,647	7,648,867	14,277,551	-	39,211,065
Commercial real estate					
Farmland	1,521,465		1,049,489	-	2,570,954
Commercial real estate - owner occupied	54,565,411	13,111,802	13,781,322	-	81,458,535
Commercial real estate - non-owner occupied	17,545,150	17,237,400	12,431,518	256,067	47,470,135
Multifamily	5,426,270	1,072,501	2,409,185	-	8,907,956
Total commercial real estate	79,058,296	31,421,703	29,671,514	256,067	140,407,580
Consumer real estate					
Home equity lines	19,225,118	1,533,770	3,855,576	-	24,614,464
Secured by 1-4 family residential, secured by first deeds of trust	48,349,677	12,472,929	17,973,830	-	78,796,436
Secured by 1-4 family residential, secured by second deeds of trust	6,756,458	205,169	1,706,021	-	8,667,648
Total consumer real estate	74,331,253	14,211,868	23,535,427	-	112,078,548
Commercial and industrial loans (except those secured by real estate)	21,795,862	2,987,775	4,863,410	-	29,647,047
Consumer and other	2,316,604	172,908	170,740	-	2,660,252
Total loans	$194,786,662	$56,443,121	$72,518,642	$256,067	$324,004,492

	December 31, 2012				
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
Construction and land development:					
Residential	$2,173,885	$671,709	$-	$-	$2,845,594
Commercial	17,638,646	7,496,950	16,074,235	-	41,209,831
Total construction and land development	19,812,531	8,168,659	16,074,235	-	44,055,425
Commercial real estate:					
Farmland	1,531,808	-	1,049,489	-	2,581,297
Commercial real estate - owner occupied	63,772,277	19,273,229	9,727,026	-	92,772,532
Commercial real estate - non-owner occupied	24,199,053	15,671,633	14,170,546	509,585	54,550,817
Multifamily	5,438,427	1,739,283	800,679	-	7,978,389
Total commercial real estate	94,941,565	36,684,145	25,747,740	509,585	157,883,035

Consumer real estate:					
Home equity lines	20,180,206	2,015,248	3,325,943	-	25,521,397
Secured by 1-4 family residential, secured by first deeds of trust	49,659,724	11,235,261	19,893,440	-	80,788,425
Secured by 1-4 family residential, secured by second deeds of trust	7,385,394	342,770	1,789,081	-	9,517,245
Total consumer real estate	77,225,324	13,593,279	25,008,464	-	115,827,067
Commercial and industrial loans (except those secured by real estate)	26,712,028	2,590,735	5,081,354	-	34,384,117
Consumer and other	2,446,304	261,140	53,178	-	2,760,622
Total Loans	$221,137,752	$61,297,958	$71,964,971	$509,585	$354,910,266

The following table presents the aging of the recorded investment in past due loans and leases as of the dates indicated:

	March 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Construction and land development							
Residential	$ -	$ -	$ -	$ -	$ 3,002,213	$ 3,002,213	$ -
Commercial	86,941	6,051	120,489	213,481	35,995,371	36,208,852	120,489
Total construction and land development	86,941	6,051	120,489	213,481	38,997,584	39,211,065	120,489
Commercial real estate							
Farmland	-	-	-	-	2,570,954	2,570,954	-
Commercial real estate - owner occupied	1,576,739	376,707	-	1,953,446	79,505,089	81,458,535	-
Commercial real estate - non-owner occupied	1,186,292	-	-	1,186,292	46,283,843	47,470,135	-
Multifamily	-	-	-	-	8,907,956	8,907,956	-
Total commercial real estate	2,763,031	376,707	-	3,139,738	137,267,842	140,407,580	-
Consumer real estate							
Home equity lines	168,713	-	-	168,713	24,445,751	24,614,464	-
Secured by 1-4 family residential, secured by first deeds of trust	1,121,751	60,778	-	1,182,529	77,613,907	78,796,436	-
Secured by 1-4 family residential, secured by second deeds of trust	515,043	-	-	515,043	8,152,605	8,667,648	-
Total consumer real estate	1,805,507	60,778	-	1,866,285	110,212,263	112,078,548	-
Commercial and industrial loans							

(except those secured by real estate)	246,611	-	-	246,611	29,400,436	29,647,047	-
Consumer and other	11,535	13,962	-	25,497	2,634,755	2,660,252	-
Total loans	$ 4,913,625	$ 457,498	$ 120,489	$ 5,491,612	$ 318,512,880	$ 324,004,492	$ 120,489

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Construction and land development:							
Residential	$ -	$ -	$ -	$ -	$ 2,845,594	$ 2,845,594	$ -
Commercial	76,351	10,709	-	87,060	41,122,771	41,209,831	-
Total construction and land development	76,351	10,709	-	87,060	43,968,365	44,055,425	-
Commercial real estate:							
Farmland	-	-	-	-	2,581,297	2,581,297	-
Commercial real estate - owner occupied	708,278	377,563	-	1,085,841	91,686,691	92,772,532	-
Commercial real estate - non-owner occupied	1,094,906	714,655	-	1,809,561	52,741,256	54,550,817	-
Multifamily	-	-	-	-	7,978,389	7,978,389	-
Total commercial real estate	1,803,184	1,092,218	-	2,895,402	154,987,633	157,883,035	-
Consumer real estate:							
Home equity lines	110,614	24,746	16,130	151,490	25,369,907	25,521,397	16,130
Secured by 1-4 family residential, secured by first deeds of trust	645,807	1,507,073	-	2,152,880	78,635,545	80,788,425	-

Secured by 1-4 family residential, secured by second deeds of trust	157,816	50,016	50,000	257,832	9,259,413	9,517,245	50,000
Total consumer real estate	914,237	1,581,835	66,130	2,562,202	113,264,865	115,827,067	66,130
Commercial and industrial loans (except those secured by real estate)	40,171	31,057	49,139	120,367	34,263,750	34,384,117	49,139
Consumer and other	4,286	36,030	-	40,316	2,720,306	2,760,622	-
Total Loans	$ 2,838,229	$ 2,751,849	$ 115,269	$ 5,705,347	$ 349,204,919	$ 354,910,266	$ 115,269

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Impaired loans are set forth in the following table as of the dates indicated.

	March 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Residential	$140,000	$-	$-
Commercial	7,083,847	10,655,937	-
Total construction and land development	7,223,847	10,655,937	-
Commercial real estate			
Farmland	-	-	-
Commercial real estate - owner occupied	7,221,916	7,267,500	-
Commercial real estate - non-owner occupied	14,521,050	14,719,050	-
Multifamily	3,035,772	3,035,772	-
Total commercial real estate	24,778,738	25,022,322	-
Consumer real estate			
Home equity lines	1,801,054	1,813,711	-
Secured by 1-4 family residential, secured by first deeds of trust	12,471,376	12,791,266	-
Secured by 1-4 family residential, secured by second deeds of trust	502,373	623,745	-
Total consumer real estate	14,774,803	15,228,722	-
Commercial and industrial loans (except those secured by real estate)	887,084	1,486,503	-
Consumer and other	65,200	65,200	-
	$47,729,672	$52,458,684	$-
With an allowance recorded			
Construction and land development			
Residential	$-	$-	$-
Commercial	1,511,725	1,511,725	576,673
Total construction and land development	1,511,725	1,511,725	576,673
Commercial real estate			
Farmland	1,049,489	1,049,489	808,000
Commercial real estate - owner occupied	2,232,374	2,232,374	498,556
Commercial real estate - non-owner occupied	253,517	509,585	253,517
Multifamily	-	-	-
Total commercial real estate	3,535,380	3,791,448	1,560,073
Consumer real estate			
Home equity lines	269,450	269,450	39,000
Secured by 1-4 family residential, secured by first deeds of trust	831,350	831,350	71,301
Secured by 1-4 family residential, secured by second deeds of trust	331,943	380,227	37,054
Total consumer real estate	1,432,743	1,481,027	147,355
Commercial and industrial loans (except those secured by real estate)	64,672	64,672	37,600
Consumer and other	-	-	-
	$6,544,520	$6,848,872	$2,321,701
Total			
Construction and land development			

Residential	$140,000	$-	$-
Commercial	8,595,572	12,167,662	576,673
Total construction and land development	8,735,572	12,167,662	576,673
Commercial real estate			
Farmland	1,049,489	1,049,489	808,000
Commercial real estate - owner occupied	9,454,290	9,499,874	498,556
Commercial real estate - non-owner occupied	14,774,567	15,228,635	253,517
Multifamily	3,035,772	3,035,772	-
Total commercial real estate	28,314,118	28,813,770	1,560,073
Consumer real estate			
Home equity lines	2,070,504	2,083,161	39,000
Secured by 1-4 family residential, secured by first deeds of trust	13,302,726	13,622,616	71,301
Secured by 1-4 family residential, secured by second deeds of trust	834,316	1,003,972	37,054
Total consumer real estate	16,207,546	16,709,749	147,355
Commercial and industrial loans (except those secured by real estate)	951,756	1,551,175	37,600
Consumer and other	65,200	65,200	-
	$54,274,192	$59,307,556	$2,321,701

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	December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Residential	$-	$-	$-
Commercial	8,254,440	13,625,670	-
Total construction and land development	8,254,440	13,625,670	-
Commercial real estate			
Farmland	1,049,489	1,049,489	-
Commercial real estate - owner occupied	8,250,071	8,715,684	-
Commercial real estate - non-owner occupied	13,777,787	14,124,016	-
Multifamily	2,825,274	2,825,274	-
Total commercial real estate	25,902,621	26,714,463	-
Consumer real estate			
Home equity lines	1,939,020	1,938,005	-
Secured by 1-4 family residential, secured by first deeds of trust	10,686,435	10,928,024	-
Secured by 1-4 family residential, secured by second deeds of trust	601,805	861,158	-
Total consumer real estate	13,227,260	13,727,187	-
Commercial and industrial loans (except those secured by real estate)	858,136	1,421,196	-
Consumer and other	50,415	50,390	-
	$48,292,872	$55,538,906	$-
With an allowance recorded			
Construction and land development:			
Residential	$-	$-	$-
Commercial	430,828	430,828	62,643
Total construction and land development	430,828	430,828	62,643
Commercial real estate:			
Farmland			
Commercial real estate - owner occupied	2,940,647	3,261,584	663,330
Commercial real estate - non-owner occupied	1,434,195	1,434,195	508,704
Multifamily	-	-	-
Total commercial real estate	4,374,842	4,695,779	1,172,034
Consumer real estate:			
Home equity lines	-	-	-
Secured by 1-4 family residential, secured by first deeds of trust	1,155,027	1,155,027	20,896
Secured by 1-4 family residential, secured by second deeds of trust	338,345	386,629	43,456
Total consumer real estate	1,493,372	1,541,656	64,352
Commercial and industrial loans (except those secured by real estate)	182,840	182,840	39,243
Consumer and other	-	-	-
	$6,481,882	$6,851,103	$1,338,272
Total			
Construction and land development			

Residential	$-	$-	$-
Commercial	8,685,268	14,056,498	62,643
Total construction and land development	8,685,268	14,056,498	62,643
Commercial real estate			
Farmland	1,049,489	1,049,489	-
Commercial real estate - owner occupied	11,190,718	11,977,268	663,330
Commercial real estate - non-owner occupied	15,211,982	15,558,211	508,704
Multifamily	2,825,274	2,825,274	-
Total commercial real estate	30,277,463	31,410,242	1,172,034
Consumer real estate			
Home equity lines	1,939,020	1,938,005	-
Secured by 1-4 family residential, secured by first deeds of trust	11,841,462	12,083,051	20,896
Secured by 1-4 family residential, secured by second deeds of trust	940,150	1,247,787	43,456
Total consumer real estate	14,720,632	15,268,843	64,352
Commercial and industrial loans (except those secured by real estate)	1,040,976	1,604,036	39,243
Consumer and other	50,415	50,390	-
	$54,774,754	$62,390,009	$1,338,272

The following is a summary of average recorded investment in impaired loans with and without a valuation allowance and interest income recognized on those loans for periods indicated:

	For the Three Months Ended March 31, 2013		For the Three Months Ended March 31, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Residential	$-	$-	$1,623,982	$7,401
Commercial	7,406,223	60,175	13,733,356	122,256
Total construction and land development	7,406,223	60,175	15,357,338	129,657
Commercial real estate				
Farmland	-	-	-	
Commercial real estate - owner occupied	7,119,781	136,728	9,534,154	99,464
Commercial real estate - non-owner occupied	14,579,438	206,192	8,079,949	173,981
Multifamily	3,043,344	51,755	613,649	8,828
Total commercial real estate	24,742,563	394,675	18,227,752	282,273
Consumer real estate				
Home equity lines	1,801,054	-	1,392,575	5,024
Secured by 1-4 family residential, secured by first deeds of trust	12,541,557	128,977	10,085,840	107,583
Secured by 1-4 family residential, secured by second deeds of trust	507,002	6,789	488,266	5,550
Total consumer real estate	14,849,613	135,766	11,966,681	118,157
Commercial and industrial loans (except those secured by real estate)	897,988	8,944	1,255,796	8,612
Consumer and other	68,248	1,092	361,260	648
	$47,964,635	$600,652	$47,168,827	$539,347
With an allowance recorded				
Construction and land development				
Residential	$-	$-	$179,863	$-
Commercial	458,065	1,628	10,555,142	37,116
Total construction and land development	458,065	1,628	10,735,005	37,116
Commercial real estate				
Farmland	1,049,489	1,100	-	
Commercial real estate - owner occupied	2,400,696	11,935	4,673,921	
Commercial real estate - non-owner occupied	256,067	-	961,039	-
Multifamily	-	-	-	-
Total commercial real estate	3,706,252	13,035	5,634,960	-
Consumer real estate				
Home equity lines	269,450	6,792	135,404	156
Secured by 1-4 family residential, secured by first deeds of trust	835,505	6,076	2,430,635	10,377
	349,192	6,401	-	

Secured by 1-4 family residential, secured by second deeds of trust				
Total consumer real estate	1,454,147	19,269	2,566,039	10,533
Commercial and industrial loans (except those secured by real estate)	64,672	1,290	493,239	7,516
Consumer and other	-	-	-	-
	$5,683,136	$35,222	$19,429,243	$55,165
Total				
Construction and land development				
Residential	$-	$-	$1,803,845	$7,401
Commercial	7,864,288	61,803	24,288,498	159,372
Total construction and land development	7,864,288	61,803	26,092,343	166,773
Commercial real estate				
Farmland	1,049,489	1,100	-	-
Commercial real estate - owner occupied	9,520,477	148,663	14,208,075	99,464
Commercial real estate - non-owner occupied	14,835,505	206,192	9,040,988	173,981
Multifamily	3,043,344	51,755	613,649	8,828
Total commercial real estate	28,448,815	407,710	23,862,712	282,273
Consumer real estate				
Home equity lines	2,070,504	6,792	1,527,979	5,180
Secured by 1-4 family residential, secured by first deeds of trust	13,377,062	135,053	12,516,475	117,960
Secured by 1-4 family residential, secured by second deeds of trust	856,194	13,190	488,266	5,550
Total consumer real estate	16,303,760	155,035	14,532,720	128,690
Commercial and industrial loans (except those secured by real estate)	962,660	10,234	1,749,035	16,128
Consumer and other	68,248	1,092	361,260	648
	$53,647,771	$635,874	$66,598,070	$594,512

Included in impaired loans are loans classified as troubled debt restructurings (TDRs). A modification of a loan’s terms constitutes a TDR if the creditor grants a concession to the borrower for economic or legal reasons related to the borrowers financial difficulties that it would not otherwise consider. For loans classified as impaired TDRs, the Company further evaluates the loans as performing or nonperforming. If, at the time of restructure, the loan is not

considered nonaccrual, it will be classified as performing. TDRs originally classified as nonperforming are able to be reclassified as performing if, subsequent to restructure, they experience six months of payment performance according to the restructured terms. The following is a summary of performing and nonaccrual TDRs and the related specific valuation allowance by portfolio segment as of the dates indicated.

	March 31, 2013			
	Total	Performing	Nonaccrual	Specific Valuation Allowance
Construction and land development				
Residential	$-	$-	$-	$-
Commercial	5,273,375	3,462,875	1,810,500	24,335
Total construction and land development	5,273,375	3,462,875	1,810,500	24,335
Commercial real estate				
Farmland	-	-	-	-
Commercial real estate - owner occupied	7,085,576	6,611,634	473,942	16,158
Commercial real estate - non-owner occupied	13,904,061	13,196,846	707,215	-
Multifamily	3,035,772	3,035,772	-	-
Total commercial real estate	24,025,409	22,844,252	1,181,157	16,158
Consumer real estate				
Home equity lines	-	-	-	-
Secured by 1-4 family residential, secured by first deeds of trust	7,447,130	3,572,375	3,874,755	33,299
Secured by 1-4 family residential, secured by second deeds of trust	331,943	-	331,943	37,054
Total consumer real estate	7,779,073	3,572,375	4,206,698	70,353
Commercial and industrial loans (except those secured by real estate)	321,477	123,234	198,243	-
Consumer and other	-	-	-	-
Total loans	$37,399,334	$30,002,736	$7,396,598	$110,846
Number of loans	78	51	27	4

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	December 31, 2012			
	Total	Performing	Nonaccrual	Specific Valuation Allowance
Construction and land development				
Commercial	$6,116,248	$3,728,403	$2,387,845	$-
Total construction and land development	6,116,248	3,728,403	2,387,845	-
Commercial real estate				
Commercial real estate - owner occupied	8,881,257	6,373,122	2,508,135	3,321
Commercial real estate - non-owner occupied	13,266,992	12,805,727	461,265	-
Multifamily	2,825,274	2,825,274	-	-
Total commercial real estate	24,973,523	22,004,123	2,969,400	3,321
Consumer real estate				
Home equity lines	-	-	-	-
Secured by 1-4 family residential, secured by first deeds of trust	7,011,329	3,431,124	3,580,205	15,633
Secured by 1-4 family residential, secured by second deeds of trust	338,344	-	338,344	43,456
Total consumer real estate	7,349,673	3,431,124	3,918,549	59,089
Commercial and industrial loans (except those secured by real estate)	380,427	5,803	374,624	39,243
Total	$38,819,871	$29,169,453	$9,650,418	$101,653
Number of loans	73	46	27	7

The following table provides information about TDRs identified during the indicated periods:

	March 31, 2013			December 31, 2012		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Construction and land development:						
Residential	-	$ -	$ -		$ -	$ -
Commercial	1	196,440	196,440	6	653,612	653,612
Total construction and land development	1	196,440	196,440	6	653,612	653,612
Commercial real estate:						-
Farmland		-	-			-
Commercial real estate - owner occupied	1	277,272	277,272	1	522,715	522,715
Commercial real estate - non-owner occupied	-	-	-	6	2,102,231	2,102,231
Multifamily	-	-	-	-	-	-

Total commercial real estate	1		277,272		277,272	7		2,624,946		2,624,946
Consumer real estate:										
Home equity lines	-		-		-	-		-		-
Secured by 1-4 family residential, secured by first deeds of trust	4		437,089		437,089	25		5,570,245		5,570,245
Secured by 1-4 family residential, secured by second deeds of trust	-		-		-	1		338,344		338,344
Total consumer real estate	4		437,089		437,089	26		5,908,589		5,908,589
Commercial and industrial loans (except those secured by real estate)	-		-		-	1		117,813		117,813
Consumer and other	-		-		-	-		-		-
	6	$	910,801	$	910,801	40	$	9,304,960	$	9,304,960

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The following table provides information about defaults of TDRs for the period indicated:

	Three Months Ended March 31, 2013	
Defaults on TDRs	Number of Loans	Recorded Balance
Construction and land development		
Residential		
Commercial	4	$1,403,928
Total construction and land development	4	1,403,928
Commercial real estate		
Farmland	-	-
Commercial real estate - owner occupied	1	473,942
Commercial real estate - non-owner occupied	-	-
Multifamily	1	473,942
Total commercial real estate		
Consumer real estate		
Home equity lines	-	-
Secured by 1-4 family residential, secured by first deeds of trust	3	414,216
Secured by 1-4 family residential, secured by second deeds of trust	-	-
Total consumer real estate	3	414,216
Commercial and industrial loans (except those secured by real estate)	3	206,760
Consumer and other	-	-
Total	11	$2,498,846

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Activity in the allowance for loan losses is as follows for the periods indicated:

	Allowance for Loan Losses				
	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Three Months Ended March 31, 2013					
Construction and land development					
Residential	$494,742	$-	$-	$450	$495,192
Commercial	4,611,410	15,000	(84,284)	-	4,542,126
Commercial real estate					
Farmland	-	808,000	-	-	808,000
Commercial real estate - owner occupied	1,358,863	-	(136,378)	-	1,222,485
Commercial real estate - non-owner occupied	816,852	-	(256,068)	-	560,784
Multifamily	23,434	-	-	-	23,434
Consumer real estate					
Home equity lines	658,135	-	(54,657)	200	603,678
Secured by 1-4 family residential, secured by first deeds of trust	1,358,102	-	(343,133)	8,026	1,022,995
Secured by 1-4 family residential, secured by second deeds of trust	223,307	-	(214,720)	3,035	11,622
Commercial and industrial loans (except those secured by real estate)	1,161,654	-	(288,831)	56,376	929,199
Consumer and other	101,328	-	(3,762)	2,884	100,450
Total	$10,807,827	$823,000	$(1,381,833)	$70,971	$10,319,965
Year Ended December 31, 2012					
Construction and land development					
Residential	$704,728	$542,067	$(797,286)	$45,233	$494,742
Commercial	6,798,177	3,444,160	(5,645,064)	14,137	4,611,410
Commercial real estate					
Farmland	-	-	-	-	-
Commercial real estate - owner occupied	1,496,466	623,552	(961,155)	200,000	1,358,863
Commercial real estate - non-owner occupied	1,548,899	(300,898)	(431,354)	205	816,852
Multifamily	406,635	(373,238)	(9,963)	-	23,434
Consumer real estate					
Home equity lines	860,307	668,614	(883,848)	13,062	658,135
Secured by 1-4 family residential, secured by first deeds of trust	1,881,470	2,610,905	(3,220,072)	85,799	1,358,102
Secured by 1-4 family residential, secured by second deeds of trust	397,504	468,192	(663,135)	20,746	223,307
Commercial and industrial loans (except those secured by real estate)	1,655,713	1,230,555	(1,879,517)	154,903	1,161,654
Consumer and other	321,525	181,091	(408,302)	7,014	101,328

Total	$16,071,424	$9,095,000	$(14,899,696)	$541,099	$10,807,827

	Allowance for Loan Losses				
	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Three Months Ended March 31, 2012					
Construction and land development					
Residential	$704,728	$(16,552)	$(59,250)	$450	$629,376
Commercial	6,798,177	1,028,575	(1,547,200)	-	6,279,552
Commercial real estate					
Farmland	-	-	-	-	-
Commercial real estate - owner occupied	1,496,466	379,264	(29,000)	-	1,846,730
Commercial real estate - non-owner occupied	1,548,899	(695,971)	(90,748)	205	762,385
Multifamily	406,635	(314,860)	-	-	91,775
Consumer real estate					
Home equity lines	860,307	32,099	(122,500)	692	770,598
Secured by 1-4 family residential, secured by first deeds of trust	1,881,470	364,980	(965,749)	60,800	1,341,501
Secured by 1-4 family residential, secured by second deeds of trust	397,504	128,294	(190,639)	193	335,352
Commercial and industrial loans (except those secured by real estate)	1,655,713	759,125	(260,402)	27,367	2,181,803
Consumer and other	321,525	70,046	(269,794)	1,104	122,881
Total	$16,071,424	$1,735,000	$(3,535,283)	$90,811	$14,361,953

Loans were evaluated for impairment as follows for the periods indicated:

	Individually	Collectively	Total
Three Months Ended March 31, 2013			
Construction and land development			
Residential	$576,000	$2,426,213	$3,002,213
Commercial	23,702,091	12,506,761	36,208,852
Commercial real estate			
Farmland	1,388,359	1,182,595	2,570,954
Commercial real estate - owner occupied	58,403,265	23,055,270	81,458,535
Commercial real estate - non-owner occupied	35,892,993	11,577,142	47,470,135
Multifamily	7,227,452	1,680,504	8,907,956
Consumer real estate			
Home equity lines	2,172,383	22,442,081	24,614,464
Secured by 1-4 family residential, secured by first deeds of trust	13,664,311	65,132,125	78,796,436
Secured by 1-4 family residential, secured by second deeds of trust	551,467	8,116,181	8,667,648
Commercial and industrial loans (except those secured by real estate)	12,018,582	17,628,465	29,647,047
Consumer and other	-	2,660,252	2,660,252
		-	
Total	$155,596,903	$168,407,589	$324,004,492
Year Ended December 31, 2012			
Construction and land development			
Residential	$1,247,709	$1,597,885	$2,845,594
Commercial	27,351,857	13,857,974	41,209,831
Commercial real estate			
Farmland	1,391,501	1,189,796	2,581,297
Commercial real estate - owner occupied	67,167,587	25,604,945	92,772,532
Commercial real estate - non-owner occupied	41,801,577	12,749,240	54,550,817
Multifamily	6,461,639	1,516,750	7,978,389
Consumer real estate			
Home equity lines	2,185,040	23,336,357	25,521,397
Secured by 1-4 family residential, secured by first deeds of trust	15,526,551	65,261,874	80,788,425
Secured by 1-4 family residential, secured by second deeds of trust	557,600	8,959,645	9,517,245
Commercial and industrial loans (except those secured by real estate)	15,101,291	19,282,826	34,384,117
Consumer and other	-	2,760,622	2,760,622
Total	$178,792,352	$176,117,914	$354,910,266

Note 6 – Deposits

Deposits as of March 31, 2013 and December 31, 2012 were as follows:

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Demand accounts	$ 62,301,743	14.8 %	$ 57,049,348	13.1 %
Interest checking accounts	43,567,794	10.3 %	45,861,199	10.5 %
Money market accounts	63,546,257	15.1 %	66,007,160	15.1 %
Savings accounts	20,469,642	4.9 %	20,922,112	4.8 %
Time deposits of $100,000 and over	107,426,419	25.5 %	113,332,481	26.0 %
Other time deposits	124,107,390	29.4 %	133,150,662	30.5 %
Total	$ 421,419,245	100.0 %	$ 436,322,962	100.0 %

Note 7 – Trust preferred securities

During the first quarter of 2005, Southern Community Financial Capital Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On February 24, 2005, $5.2 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate of interest (three-month LIBOR plus 2.15%) which adjusts, and is payable, quarterly. The interest rate at March 31, 2013 was 2.43%. The securities were redeemable at par beginning on March 15, 2010 and each quarter after such date until the securities mature on March 15, 2035. No amounts have been redeemed at March 31, 2013 and there are no plans to do so. The principal asset of the Trust is $5.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

During the third quarter of 2007, Village Financial Statutory Trust II, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On September 20, 2007, $3.6 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have a five year fixed income rate of 6.29% payable quarterly, converting after five years to a LIBOR-indexed floating rate of interest (three-month LIBOR plus 1.40%) which adjusts, and is also payable, quarterly. The securities may be redeemed at par at any time commencing in December 2012 until the securities mature in 2037. No amounts have been redeemed at March 31, 2013 and there are no plans to do so. The principal asset of the Trust is $3.6 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

The Trust Preferred Capital Notes may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the Trust Preferred Capital Notes not considered as Tier 1 capital may be included in Tier 2 capital.

The obligations of the Company with respect to the issuance of the Trust Preferred Capital Notes constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the Trust Preferred Capital Notes. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Trust Preferred Capital Notes and require a deferral of common dividends. In consideration of our

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agreements with our regulators, which require regulatory approval to make interest payments on these securities, the Company has deferred an aggregate of $716,347 in interest payments on the junior subordinated debt securities as March 31, 2013. The Company has been deferring interest payments since June 2011. Although we elected to defer payment of interest due, the amount has been accrued and is included in interest expense in the consolidated statement of operations.

Note 8 – Stock incentive plan

The Company has a stock incentive plan which authorizes the issuance of up to 455,000 shares of common stock to assist the Company in recruiting and retaining key personnel.

The following table summarizes stock options outstanding under the stock incentive plan at the indicated dates:

	Three Months Ended March 31,							
	2013				2012			
	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value
Options outstanding, beginning of period	255,630	$ 9.48	$ 4.70		264,980	$ 9.48	$ 4.73	
Granted	-	-	-		-	-	-	
Forfeited	(1,000)	7.75	5.05		(450)	8.50	4.88	
Exercised	-	-	-		-	-	-	
Options outstanding, end of period	254,630	$ 9.57	$ 4.64	$ -	264,530	$ 9.65	$ 4.73	$ -
Options exercisable, end of period	249,630				261,530			

The fair value of the stock is calculated under the same methodology as stock options and the expense is recognized over the vesting period. Unamortized stock-based compensation related to nonvested share based compensation arrangements granted under the Incentive Plan as of March 31, 2013 and 2012 was $2,249 and $4,755 respectively. The time based unamortized compensation of $2,249 is expected to be recognized over a weighted average period of 2.33 years.

Stock-based compensation expense was $241 and $1,589 for the three months ended March 31, 2013 and 2012 respectively.

Note 9 — Fair value

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction

to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and

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customary for transaction involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, able to transact and willing to transact.

FASB Codification Topic 820: Fair Value Measurements and Disclosures establishes a hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair values hierarch is as follows:

- Level 1 Inputs — Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2 Inputs — Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 Inputs- Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods to determine the fair value of each type of financial instrument:

Securities: Fair values for securities available-for-sale are obtained from an independent pricing service. The prices are not adjusted. The independent pricing service uses industry-standard models to price U.S. Government agency obligations and mortgage backed securities that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace (Levels 1 and 2).

Impaired loans: The fair values of impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans on a nonrecurring basis. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than two years old, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal if deemed significant using observable market data. Likewise, values for inventory and account receivables collateral are based on financial statement balances or aging reports (Level 3). Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Real Estate Owned: Real estate owned assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, real estate owned assets are carried at net realizable

value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring level 3.

Assets and liabilities measured at fair value under Topic 820 on a recurring and non-recurring basis are summarized below for the indicated dates:

		Fair Value Measurement at March 31, 2013 Using (In thousands)		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets - Recurring				
US Government Agencies	$16,097	$1,899	$14,198	$ -
MBS	1,513	-	1,513	-
Municipals	12,025	-	12,025	-
Residential loans held for sale	16,378	-	16,378	-
			-	
Financial Assets - Non-Recurring				
Impaired loans	54,274	-	45,750	8,524
Real estate owned	21,383	-	20,084	1,299

		Fair Value Measurement at December 31, 2012 Using (In thousands)		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets - Recurring				
US Government Agencies	$11,387	$5,000	$6,387	$ -
MBS	1,829	-	1,829	-
Municipals	11,938	2,918	9,020	-
Residential loans held for sale	24,188	-	24,188	-
			-	
Financial Assets - Non-Recurring				
Impaired loans	54,775	-	47,016	7,759
Real estate owned	20,204	-	18,675	1,529

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The following table presents qualitative information about level 3 fair value measurements for financial instruments measured at fair value at March 31, 2013:

	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
		(In thousands)		
Impaired loans - real estate secured	$ 7,064	Appraisal (1) or Internal Valuation (2)	Appraisal Adjustments Liquidation Expenses (3)	10%-30%
Impaired loans - non-real estate secured	$ 1,460	Appraisal (1) or Discounted Cash Flow	Appraisal Adjustments Liquidation Expenses (3)	10%-20%
Real estate owned	$ 1,299	Appraisal (1) or Internal Valuation (2)	Appraisal Adjustments Liquidation Expenses (3)	7%-30%

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally included various level 3 inputs which are not identifiable
(2) Internal valuations may be conducted to determine Fair Value for assets with nominal carrying balances
(3) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses

The following table presents the changes in the Level 3 fair value category for the three months ended March 31, 2013.

	Impaired Loans	Real Estate Owned	Total Assets
		(In thousands)	
Balance at December 31, 2012	$7,759	$1,529	$9,288
Total realized and unrealized gains (losses)			
Included in earnings	-	(130)	(130)
Included in other comprehensive income	-	-	-
Net transfers in and/or out of Level 3	765	(100)	665
Balance at March 31, 2013	$8,524	$1,299	$9,823

In general, fair value of securities is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon market prices determined by an outside, independent entity that primarily uses as inputs, observable market-based parameters. Fair value of loans held for sale is based upon internally developed models that primarily use as inputs, observable market-based parameters. Valuation adjustments may be

made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's monthly and or quarter valuation process.

Cash and cash equivalents – The carrying amount of cash and cash equivalents approximates fair value.

Investment securities – The fair value of investment securities available-for-sale is estimated based on bid quotations received from independent pricing services for similar assets. The carrying amount of other investments approximates fair value.

Loans – For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. For all other loans, fair values are calculated by discounting the contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loans, or by using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits – The fair value of deposits with no stated maturity, such as demand, interest checking and money market, and savings accounts, is equal to the amount payable on demand at year-end. The fair value of certificates of deposit is based on the discounted value of contractual cash flows using the rates currently offered for deposits of similar remaining maturities.

Borrowings – The fair value of borrowings is based on the discounted value of contractual cash flows using the rates currently offered for borrowings of similar remaining maturities.

Accrued interest – The carrying amounts of accrued interest receivable and payable approximate fair value.

		March 31, 2013		December 31, 2012	
	Level in Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets					
Cash	Level 1	$ 12,340,643	$ 12,340,643	$ 13,945,105	$ 13,945,105
Cash equivalents	Level 2	56,796,937	56,796,937	39,185,837	39,185,837
Investment securities available for sale	Level 1	1,898,730	1,898,730	7,918,420	7,918,420
Investment securities available for sale	Level 2	27,736,316	27,736,316	17,235,626	17,235,626
Federal Home Loan Bank stock	Level 2	1,867,300	1,867,300	2,121,900	2,121,900
Loans held for sale	Level 2	16,377,826	16,377,826	24,188,384	24,188,384
Loans	Level 2	261,016,472	265,851,990	290,115,508	294,476,846
Impaired loans	Level 2	45,750,544	45,750,544	47,016,065	47,016,065
Impaired loans	Level 3	8,523,648	8,523,648	7,758,689	7,758,689
Other real estate owned	Level 2	20,083,837	20,083,837	18,675,164	18,675,164
Other real estate owned	Level 3	1,298,994	1,298,994	1,528,527	1,528,527
Bank owned life insurance	Level 3	6,625,325	6,625,325	6,575,018	6,575,018
Accrued interest receivable	Level 2	1,580,147	1,580,147	1,676,518	1,676,518
Financial liabilities					
Deposits	Level 2	421,419,245	423,055,395	436,322,962	437,644,329

FHLB borrowings	Level 2	27,000,000	27,423,217	28,000,000	28,424,029
Trust preferred securities	Level 2	8,764,000	7,537,040	8,764,000	7,537,040
Other borrowings	Level 2	1,882,346	1,882,346	4,851,811	4,851,811
Accrued interest payable	Level 2	981,527	981,527	911,635	911,635

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Note 10 – Capital Purchase Program

On May 1, 2009, as part of the Capital Purchase Program established by the U.S. Department of the Treasury (the "Treasury") under the Emergency Economic Stabilization Act of 2008 ("EESA"), the Company entered into a Letter Agreement and Securities Purchase Agreement—Standard Terms (collectively, the "Purchase Agreement") with the Treasury, pursuant to which the Company sold (i) 14,738 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $4.00 per share, having a liquidation preference of $1,000 per share (the "Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 499,029 shares of the Company's common stock at an initial exercise price of $4.43 per share, subject to certain anti-dilution and other adjustments, for an aggregate purchase price of $14,738,000 in cash. The fair value of the preferred stock was estimated using discounted cash flow methodology at an assumed market equivalent rate of 13%, with 20 quarterly payments over a five year period. The fair value of the warrant was estimated using the Black-Scholes option pricing model, with assumptions of 25% volatility, a risk-free rate of 2.03%, a yield of 6.162% and an estimated life of 5 years. The value attributed to the warrant is being accreted as a discount on the preferred stock using the effective interest rate method over five years.

The Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% until May 1, 2014 and 9% thereafter, unless the shares are redeemed by the Company. The Preferred Stock is generally non-voting, other than on certain matters that could adversely affect the Preferred Stock.

The Warrant is immediately exercisable. The Warrant provides for the adjustment of the exercise price and the number of shares of common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of common stock, and upon certain issuances of common stock at or below a specified price relative to the then-current market price of common stock. The Warrant expires ten years from the issuance date. Pursuant to the Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the Warrant.

As required by the Federal Reserve Bank of Richmond, the Company notified the U.S. Treasury in May 2011 that the Company was going to defer the payment of the quarterly cash dividend of $184,225 due on May 16, 2011, and subsequent quarterly payments, on the Fixed Rate Cumulative Perpetual Preferred Stock, Series A. The total arrearage on such preferred stock as of March 31, 2013 was $1,565,912. This amount has been accrued for and is included in other liabilities in the consolidated balance sheet.

In June 2012 the Treasury asked to allow an observer at the Company's meetings of its board of directors. The observer started attending board meetings in August 2012. The Treasury has the contractual right to nominate up to two members to the board of directors upon the Company's sixth missed dividend payment. The Company has deferred eight dividend payments as of March 31, 2013. However, Treasury has not indicated that it will nominate two directors to the board of directors.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and

certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 11 – Commitments and contingencies

Off-balance-sheet risk – The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the financial statements. The contract amounts of these instruments reflect the extent of involvement that the Company has in particular classes of instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, and to potential credit loss associated with letters of credit issued, is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for loans and other such on-balance sheet instruments.

The Company had outstanding the following approximate off-balance-sheet financial instruments whose contract amounts represent credit risk at the dates indicated:

	March 31, 2013	December 31, 2012
Undisbursed credit lines	$ 32,983,000	$ 35,780,000
Commitments to extend or originate credit	36,131,000	25,016,000
Standby letter of credit	2,906,000	3,314,000
Total commitments to extend credit	$ 72,020,000	$ 64,110,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Historically, many commitments expire without being drawn upon; therefore, the total commitment amounts shown in the above table are not necessarily indicative of future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include personal or income-producing commercial real estate, accounts receivable, inventory and equipment.

Concentrations of credit risk – All of the Company's loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Company's market area. Although the Company is building a diversified loan portfolio, a substantial portion of its clients' ability to honor contracts is reliant upon the economic stability of the Richmond, Virginia area, including the real estate markets in the area. The concentrations of credit by type of loan are set forth in Note 5. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

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Consent Order – In February 2012, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order ("Consent Agreement") with the Federal Deposit Insurance Corporation and the Virginia Bureau of Financial Institutions (the "Supervisory Authorities"), and the Supervisory Authorities have issued the related Consent Order (the "Order") effective February 3, 2012. The description of the Consent Agreement and the Order is set forth below:

Management. The Order requires that the Bank have and retain qualified management, including at a minimum a chief executive officer, senior lending officer and chief operating officer, with qualifications and experience commensurate with their assigned duties and responsibilities within 90 days from the effective date of the order. Within 30 days of the effective date of the Order, the Bank must retain a bank consultant to develop a written analysis and assessment of the Bank's management and staffing needs for the purpose of providing qualified management for the Bank. Within 30 days from receipt of the consultant's management report, the Bank must formulate a written management plan that incorporates the findings of the management report, a plan of action in response to each recommendation contained in the management report, and a timeframe for completing each action.

Capital Requirements. Within 90 days from the effective date of the Order and during the life of the Order, the Bank must have Tier 1 capital equal to or greater than 8 percent of its total assets, and total risk-based capital equal to or greater than 11 percent of the Bank's total risk-weighted assets. Within 90 days from the effective date of the Order, the Bank must submit a written capital plan to the Supervisory Authorities. The capital plan must include a contingency plan in the event that the Bank fails to maintain the minimum capital ratios required in the Order, submit a capital plan that is acceptable to the Supervisory Authorities, or implement or adhere to the capital plan.

Charge-offs. The Order requires the Bank to eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" and 50 percent of those classified "Doubtful". If an asset is classified "Doubtful", the Bank may, in the alternative, charge off the amount that is considered uncollectible in accordance with the Bank's written analysis of loan or lease impairment. The Order also prevents the Bank from extending, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, on whole or in part, "loss" or "doubtful" and is uncollected. The Bank may not extend, directly or indirectly, any additional credit to any borrower who has a loan or other extension of credit from the Bank that has been classified "substandard." These limitations do not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank.

Asset Growth. While the Order is in effect, the Bank must notify the Supervisory Authorities at least 60 days prior to undertaking asset growth that exceeds 10% or more per year or initiating material changes in asset or liability composition. The Bank's asset growth cannot result in noncompliance with the capital maintenance provisions of the Order unless the Bank receives prior written approval from the Supervisory Authorities.

Restriction on Dividends and Other Payments. While the Order is in effect, the Bank cannot declare or pay dividends, pay bonuses, or pay any form of payment outside the ordinary course of business resulting in a reduction of capital without the prior written approval of the Supervisory Authorities. In addition, the Bank cannot make any distributions of interest, principal, or other sums on subordinated debentures without prior written approval of the Supervisory Authorities.

Brokered Deposits. The Order provides that the Bank may not accept, renew, or roll over any brokered deposits unless it is in compliance with the requirements of the FDIC regulations governing brokered deposits. These regulations prohibit undercapitalized institutions from accepting, renewing, or rolling over any brokered deposits and also prohibit undercapitalized institutions from soliciting deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the institution's market area. An "adequately capitalized" institution may not accept, renew, or roll over brokered deposits unless it has applied for and been granted a waiver by the FDIC.

Written Plans and Other Material Terms. Under the terms of the Order, the Bank is required to prepare and submit the following written plans or reports to the FDIC and the Commissioner:

- Plan to improve liquidity, contingency funding, interest rate risk, and asset liability management
- Plan to reduce assets of $250,000 or greater classified "doubtful" and "substandard"
- Revised lending and collection policy to provide effective guidance and control over the Bank's lending and credit administration functions
- Effective internal loan review and grading system
- Policy for managing the Bank's other real estate
- Business/strategic plan covering the overall operation of the Bank
- Plan and comprehensive budget for all categories of income and expense for the year 2011
- Policy and procedures for managing interest rate risk
- Assessment of the Bank's information technology function

Under the Order, the Bank's board of directors has agreed to increase its participation in the affairs of the Bank, including assuming full responsibility for the approval of policies and objectives for the supervision of all of the Bank's activities. The Bank must also establish a board committee to monitor and coordinate compliance with the Order.

The Order will remain in effect until modified or terminated by the Supervisory Authorities.

While subject to the Consent Order, we expect that our management and board of directors will be required to focus considerable time and attention on taking corrective actions to comply with the terms. In addition, certain provisions of the Consent Order described above could adversely impact the Company's businesses and results of operations.

Written Agreement – In June 2012, the Company entered into a written agreement ("Written Agreement") with the Federal Reserve Bank of Richmond ("Reserve Bank"). Under the terms of the Written Agreement, the Company agreed to develop and submit to the Reserve Bank for approval within the time periods specified therein written plans to maintain sufficient capital and

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correct any violations of section 23A of the Federal Reserve Act and Regulation W. In addition, the Company will submit a written statement of its planned sources and uses of cash for debt service, operation expenses, and other purposes.

The Company also has agreed that it will not, without prior regulatory approval:

- pay or declare any dividends;
- take any other form of payment representing a reduction in Bank's capital;
- make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities;
- incur, increase or guarantee any debt;
- purchase or deem any shares of its stock.

Since entering into the Order and the Written Agreement, the Company has taken numerous steps to comply with the terms of the consent order.

Note 12 – Income Taxes

The net deferred tax asset is included in other assets on the balance sheet. Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. Management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. The deferred tax assets are analyzed quarterly for changes affecting realization. Management determined that as of March 31, 2013, the objective negative evidence represented by the Company's recent losses outweighed the more subjective positive evidence and, as a result, recognized a valuation allowance for all of the net deferred tax asset of approximately $10,368,000.

Note 13 – Recent accounting pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU requires an entity to report, either on the face of the income statement or in the notes to the financial statements, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in the income statement if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other required disclosures that provide additional detail about those amounts. This ASU is effective prospectively in the first quarter of 2013, and is not expected to have a material effect on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income ("ASU 2011-05"). ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 became effective for the Company on January 1, 2012. In connection with the application of ASU 2011-05, the Company's financial statements now include separate statements of comprehensive income.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The Company adopted ASU 2011-04, which generally aligns the principles of fair value measurements with International Financial Reporting Standards (IFRSs), in its consolidated financial statements in the first quarter 2012. The provisions of ASU 2011-04 clarify the application of existing fair value measurement requirements, and expand the disclosure requirements for fair value measurements. The increased provisions of ASU 2011-04 did not have a material effect on the Company's consolidated financial statements.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Caution about forward-looking statements

In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement, that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements may include statements regarding profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy and financial and other goals. Forward-looking statements often use words such as "believes," "expects," "plans," "may," "will," "should," "projects," "contemplates," "anticipates," "forecas other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements.

There are many factors that could have a material adverse effect on the operations and future prospects of the Company including, but not limited to:

- the inability of the Bank to comply with the requirements of agreements with its regulators;
- the inability to reduce nonperforming assets consisting of nonaccrual loans and foreclosed real estate;
- our inability to improve our regulatory capital position;
- the risks of changes in interest rates on levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest sensitive assets and liabilities;
- changes in assumptions underlying the establishment of allowances for loan losses, and other estimates;
- changes in market conditions, specifically declines in the residential and commercial real estate market, volatility and disruption of the capital and credit markets, soundness of other financial institutions we do business with;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- changes in operations of Village Bank Mortgage Corporation as a result of the activity in the residential real estate market;
- legislative and regulatory changes, including the Dodd-Frank Act Wall Street Reform and Consumer Protection Act and other changes in banking, securities, and tax laws and regulations and their application by our regulators, and changes in scope and cost of FDIC insurance and other coverages;
- exposure to repurchase loans sold to investors for which borrowers failed to provide full and accurate information on or related to their loan application or for which appraisals have not been acceptable or when the loan was not underwritten in accordance with the loan program specified by the loan investor;
- the effects of future economic, business and market conditions;
- governmental monetary and fiscal policies;
- changes in accounting policies, rules and practices;
- maintaining capital levels adequate to remain well capitalized;
- reliance on our management team, including our ability to attract and retain key personnel;
- competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- demand, development and acceptance of new products and services;
- problems with technology utilized by us;
- changing trends in customer profiles and behavior; and

- other factors described from time to time in our reports filed with the SEC.

These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made. In addition, past results of operations are not necessarily indicative of future results.

General

The Company's primary source of earnings is net interest income, and its principal market risk exposure is interest rate risk. The Company is not able to predict market interest rate fluctuations and its asset/liability management strategy may not prevent interest rate changes from having a material adverse effect on the Company's results of operations and financial condition.

Although we endeavor to minimize the credit risk inherent in the Company's loan portfolio, we must necessarily make various assumptions and judgments about the collectability of the loan portfolio based on our experience and evaluation of economic conditions. If such assumptions or judgments prove to be incorrect, the current allowance for loan losses may not be sufficient to cover loan losses and additions to the allowance may be necessary, which would have a negative impact on net income. Over the last three years, the Company has recorded record provisions for loan losses due primarily to loans collateralized by real estate located in its principal market area.

There is intense competition in all areas in which the Company conducts its business. The Company competes with banks and other financial institutions, including savings and loan associations, savings banks, finance companies, and credit unions. Many of these competitors have substantially greater resources and lending limits and provide a wider array of banking services. To a limited extent, the Company also competes with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. Competition is based on a number of factors, including prices, interest rates, services, availability of products and geographic location.

At the beginning of 2012, our business strategy included efforts to reduce our total assets and liabilities due to a continued depressed economy as well as capital limitations at the time. These efforts resulted in declines of approximately $72 million in total assets and approximately $60 million in total liabilities in 2012. With the sale of a branch completed in the first quarter of 2013, we further reduced our total assets and liabilities by approximately $18 million. This strategy helped strengthen our regulatory capital ratios in 2012 and the first quarter of 2013. While we do not anticipate significant growth in 2013, we do not expect to continue our efforts to reduce total assets and liabilities.

Results of Operations

The following presents management's discussion and analysis of the financial condition of the Company at March 31, 2013 and December 31, 2012 and the results of operations for the Company for the three months ended March 31, 2013 and 2012. This discussion should be read in conjunction with the Company's condensed consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report.

Income Statement Analysis

Summary

For the three months ended March 31, 2013, the Company had a net loss of $(511,000) and a net loss available to common shareholders of $(732,000), or $(0.17) per fully diluted share, compared to a net loss of $(1,400,000) and a net loss available to common shareholders of $(1,621,000) or $(0.38) per fully diluted basis, for the same period in 2012. The key factors in the decrease in the loss were decreases in the provision for loan losses of $912,000 and the gain on the sale of a branch of $598,000, offset by the increase in expenses associated with foreclosed real estate of $456,000 from $1,119,000 for the first quarter of 2012 to $1,575,000 for the first quarter of 2013. The decrease in the provision for loan losses is attributable to an improving loan portfolio as well as a decline in need due to the decline in total loans. However, as we resolve nonperforming loans through foreclosure, costs associated with foreclosed real estate will continue to be a significant expense.

Our cost of deposits declined from 1.34% for the first quarter of 2012 to 1.12% for the first quarter of 2013. This decline in cost of deposits is a result of the repricing of higher cost certificates of deposit during the low interest rate environment that has existed for the last three years as well as an effort to change our deposit mix so that we are not so dependent on higher cost deposits. Our mortgage company's profit increased slightly in the first quarter of 2013 compared to 2012 by $8,000 despite the mortgage company closing $57,961,000 in mortgage loans in the first quarter of 2013 compared to $64,121,000 in the first quarter of 2012.

Net interest income

Net interest income, which represents the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities, is the Company's primary source of earnings. Net interest income can be affected by changes in market interest rates as well as the level and composition of assets, liabilities and shareholders' equity. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. The net yield on interest-earning assets ("net interest margin") is calculated by dividing tax equivalent net interest income by average interest-earning assets. Generally, the net interest margin will exceed the net interest spread because a portion of interest-earning assets are funded by various noninterest-bearing sources, principally noninterest-bearing deposits and shareholders' equity.

Net interest income for the first quarter of $4,089,000 represents a decrease of $332,000, or 8%, compared to the first quarter of 2012, and a decrease of $625,000, or 13%, compared to the fourth quarter of 2012.

Compared to the first quarter of 2012, average interest-earning assets for the first quarter of 2013 decreased by $65,689,000, or 13%. The decrease in average interest-earning assets was due

primarily to decreases in portfolio loans of $74,597,000, offset by increases in loans held for sale of $3,090,000 and federal funds sold of $7,119,000. The decline in average interest-earning assets was somewhat mitigated by an increase in the average yield on interest-earning assets from 4.85% for the first quarter of 2012 to 4.96% for the first quarter of 2013. These fluctuations resulted in a decline in interest income from the first quarter of 2012 to the first quarter of 2013 of $714,000, or 12%.

Average interest-bearing liabilities for the first quarter of 2013 decreased by $42,513,000, or 9%, compared to the first quarter of 2012. The decrease in interest-bearing liabilities was due to declines in average deposits of $32,363,000 and average borrowings of $10,150,000. The average cost of interest-bearing liabilities decreased to 1.23% for the first quarter of 2013 from 1.45% for the first quarter of 2012. The principal reason for the decrease in liability costs was the maintenance of short-term interest rates at a low level by the Federal Reserve. The continuing low interest rates have allowed us to reduce our cost of funds as certificates of deposit and borrowings mature. See our discussion of interest rate sensitivity below for more information.

The Company's net interest margin is not a measurement under accounting principles generally accepted in the United States, but it is a common measure used by the financial services industry to determine how profitably earning assets are funded. Our net interest margin over the last several quarters is provided in the following table:

Quarter Ended	Net Interest Margin
March 31, 2012	3.53%
June 30, 2012	3.65%
September 30, 2012	3.70%
December 31, 2012	4.25%
March 31, 2013	3.79%

The significant increase in the net interest margin in the fourth quarter of 2012 is attributable to the recapture of interest on returning approximately $14.4 million of nonaccrual loans to accrual status during the quarter. The net interest margin for the first quarter of 2013 is more consistent with the net interest margin for the first three quarters of 2012 and the trend over the last five quarters has been improving. This improving net interest margin is a result of a declining cost of funds which decreased by 22 basis points from the first quarter of 2012 to the first quarter of 2013.

The following table illustrates average balances of total interest-earning assets and total interest-bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, shareholders' equity and related income, expense and corresponding weighted-average yields and rates. The average balances used in these tables and other statistical data were calculated using daily average balances. We had no tax exempt assets for the periods presented.

Average Balance Sheets
(in thousands)

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	Average Balance	Interest Income/ Expense	Annualized Yield Rate	Average Balance	Interest Income/ Expense	Annualized Yield Rate
Loans	$345,623	$4,977	5.84 %	$420,220	$5,768	5.52 %
Investment securities	30,007	188	2.54 %	31,307	150	1.93 %
Loans held for sale	16,201	166	4.16 %	13,111	131	4.01 %
Federal funds and other	45,776	25	0.22 %	38,657	21	0.22 %
Total interest earning assets	437,607	5,356	4.96 %	503,296	6,070	4.85 %
Allowance for loan losses and deferred fees	(10,591)			(11,845)		
Cash and due from banks	13,159			15,305		
Premises and equipment, net	25,530			26,710		
Other assets	37,950			33,255		
Total assets	$503,655			$566,720		
Interest bearing deposits						
Interest checking	$43,329	$35	0.32 %	$42,168	$40	0.38 %
Money market	66,293	61	0.37 %	73,422	76	0.42 %
Savings	20,908	23	0.45 %	16,186	21	0.52 %
Certificates	245,906	924	1.52 %	277,023	1,221	1.77 %
Total	376,436	1,043	1.12 %	408,799	1,358	1.34 %
Borrowings	39,655	224	2.29 %	49,805	291	2.35 %
Total interest bearing liabilities	416,091	1,267	1.23 %	458,604	1,649	1.45 %
Noninterest bearing deposits	55,216			63,206		
Other liabilities	7,170			3,675		
Total liabilities	478,477			525,486		
Equity capital	25,178			41,234		
Total liabilities and capital	$503,655			$566,720		
Net interest income before provision for loan losses		$4,089			$4,421	
Interest spread - average yield on interest earning assets, less average rate on interest bearing liabilities			3.74 %			3.40 %
Annualized net interest margin (net interest income expressed as			3.79 %			3.53 %

percentage of average earning
assets)

Provision for loan losses

There was a provision for loan losses for the three months ended March 31, 2013 of $823,000 compared to a provision of $1,735,000 for the same period in 2012. The decline in the provision for loan losses for the first quarter of 2013 was primarily driven by an $88 million decline in loans outstanding from March 31, 2012 to March 31, 2013 as well as a decline in the impairment on specific nonperforming loans. The provision for loan losses for the first quarter of 2013 was primarily attributable to one nonperforming loan relationship for which the collateral was determined to be deficient. While we are encouraged by this decline in the provision for loan losses, overall asset quality continues to be a concern as there continues to be uncertainty in the economy and the level of nonperforming assets remains significant.

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Noninterest income

Noninterest income increased from $2,688,000 for the first quarter of 2012 to $3,606,000 for the same period in 2013, an increase of $918,000, or 34%. This increase in noninterest income was primarily the result of higher gains on loan sales from increased loan production by our mortgage banking subsidiary of $205,000, and the gain on the sale of the Robious branch of $598,000.

Noninterest expense

Noninterest expense for the three months ended March 31, 2013 was $7,384,000 compared to $6,775,000 for the three months ended March 31, 2012, an increase of $609,000 or 9%. The most significant increases in noninterest expense occurred in expenses related to foreclosed real estate of $456,000 and salaries and benefits of $341,000. The increase in expenses related to foreclosed real estate is a result of our efforts to foreclose on troubled loans and the disposition of the collateral, and the increase in salaries and benefits is primarily attributable to increases in commissions paid to mortgage loan officers.

Income taxes

Certain items of income and expense are reported in different periods for financial reporting and tax return purposes. The tax effects of these temporary differences are recognized currently in the deferred income tax provision or benefit. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the applicable enacted marginal tax rate.

The net deferred tax asset is included in other assets on the balance sheet. Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. Management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. The deferred tax assets are analyzed quarterly for changes affecting realization. Management determined that as of December 31, 2012, the objective negative evidence represented by the Company’s recent losses outweighed the more subjective positive evidence and, as a result, recognized a valuation allowance on its net deferred tax asset of approximately $10,158,000. At March 31, 2013, management continues to believe that the objective negative evidence represented by the Company’s continued losses in the first quarter outweighed the more subjective positive evidence and, as a result, recognized an addition to the valuation allowance on its net deferred tax asset of approximately $210,000. The net operating losses available to offset future taxable income amounted to $14,684,000 at March 31, 2013 and expire through 2031.

Commercial banking organizations conducting business in Virginia are not subject to Virginia income taxes. Instead, they are subject to a franchise tax based on bank capital. The Company recorded a franchise tax expense of $42,000 for the three months ended March 31, 2012. Due to the Company’s adjusted capital level we were not subject to franchise tax expense in the first quarter of 2013.

Balance Sheet Analysis

Our total assets decreased to $491,054,000 at March 31, 2013 from $510,087,000 at December 31, 2012, a decrease of $19,033,000, or 4%. During the first quarter of 2013 there were decreases in net loans of $30,423,000, loans held for sale of $7,810,000 and premises and equipment of $1,823,000 offset by an increase in liquid assets (cash and due from banks, federal funds sold and investment securities available for sale) of $20,488,000. The branch sale discussed previously was the primary driver of the decline for the quarter.

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Loans

A management objective is to maintain the quality of the loan portfolio. The Company seeks to achieve this objective by maintaining rigorous underwriting standards coupled with regular evaluation of the creditworthiness of and the designation of lending limits for each borrower. The portfolio strategies include seeking industry and loan size diversification in order to minimize credit exposure and originating loans in markets with which the Company is familiar.

The Company's real estate loan portfolios, which represent approximately 90% of all loans, are secured by mortgages on real property located principally in the Commonwealth of Virginia. Sources of repayment are from the borrower's operating profits, cash flows and liquidation of pledged collateral. The Company's commercial loan portfolio represents approximately 9% of all loans. Loans in this category are typically made to individuals, small and medium-sized businesses and range between $250,000 and $2.5 million. Based on underwriting standards, commercial and industrial loans may be secured in whole or in part by collateral such as liquid assets, accounts receivable, equipment, inventory, and real property. The collateral securing any loan may depend on the type of loan and may vary in value based on market conditions. The remainder of our loan portfolio is in consumer loans which represent approximately 1% of the total.

The following table presents the composition of our loan portfolio (excluding mortgage loans held for sale) at the dates indicated (in thousands):

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Construction and land development				
Residential	$3,002	0.93 %	$2,845	0.80 %
Commercial	36,209	11.18 %	41,210	11.61 %
Total construction and land development	39,211	12.11 %	44,055	12.41 %
Commercial real estate				
Farmland	2,571	0.79 %	2,581	0.73 %
Commercial real estate - owner occupied	81,459	25.14 %	92,773	26.14 %
Commercial real estate - non-owner occupied	47,470	14.65 %	54,551	15.37 %
Multifamily	8,908	2.75 %	7,979	2.25 %
Total commercial real estate	140,408	43.33 %	157,884	44.49 %
Consumer real estate				
Home equity lines	24,614	7.60 %	25,521	7.19 %
Secured by 1-4 family residential, secured by first deeds of trust	78,796	24.32 %	80,788	22.76 %
Secured by 1-4 family residential, secured by second deeds of trust	8,668	2.67 %	9,517	2.68 %
Total consumer real estate	112,078	34.59 %	115,827	32.63 %
Commercial and industrial loans (except those secured by real estate)	29,647	9.15 %	34,384	9.69 %
Consumer and other	2,660	0.82 %	2,761	0.78 %
Total Loans	324,004	100.0 %	354,910	100.0 %
Deferred loan cost (unearned income), net	783		788	
Less: Allowance for loan losses	(10,320)		(10,808)	
	$314,467		$344,890	

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The decline in our total loan portfolio for the first quarter of 2013 was primarily due to the branch sale which included the sale of approximately $12 million in loans, as well as management's strategy to decrease our level of assets to improve our regulatory capital ratios and reduce our overhead expenses.

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

- Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. 1-4 assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;
- Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;
- Risk rated 6 loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any, and;
- Risk rated 7 loans have all the weaknesses inherent in substandard loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans are considered impaired when, based on current information and events it is probably the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Allowance for loan losses

We monitor and maintain an allowance for loan losses to absorb an estimate of probable losses inherent in the loan portfolio. We maintain policies and procedures that address the systems of controls over the following areas of maintenance of the allowance: the systematic methodology used to determine the appropriate level of the allowance to provide assurance they are maintained in accordance with accounting principles generally accepted in the United States of America; the accounting policies for loan charge-offs and recoveries; the assessment and measurement of impairment in the loan portfolio; and the loan grading system.

The allowance reflects management's best estimate of probable losses within the existing loan portfolio and of the risk inherent in various components of the loan portfolio, including loans identified as impaired as required by FASB Codification Topic 310: Receivables. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment.

Loans are grouped by similar characteristics, including the type of loan, the assigned loan classification and the general collateral type. A loss rate reflecting the expected loss inherent in a group of loans is derived based upon historical net charge-off rates, the predominant collateral type for the group and the terms of the loan. The resulting estimate of losses for groups of loans is adjusted for relevant environmental factors and other conditions of the portfolio of loans and leases, including: borrower and industry concentrations; levels and trends in delinquencies, charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience, ability and depth

of lending management; and national and local economic conditions.

The amounts of estimated impairment for individually evaluated loans and groups of loans are added together for a total estimate of loan losses. This estimate of losses is compared to our allowance for loan losses as of the evaluation date and, if the estimate of losses is greater than the allowance, an additional provision to the allowance would be made. If the estimate of losses is less than the allowance, the degree to which the allowance exceeds the estimate is evaluated to determine whether the allowance falls outside a range of estimates. We recognize the inherent imprecision in estimates of losses due to various uncertainties and variability related to the factors used, and therefore a reasonable range around the estimate of losses is derived and used to ascertain whether the allowance is too high. If different assumptions or conditions were to prevail and it is determined that the allowance is not adequate to absorb the new estimate of probable losses, an additional provision for loan losses would be made, which amount may be material to the financial statements.

The allowance for loan losses at March 31, 2013 was $10,320,000, compared to $10,808,000 at December 31, 2012. The ratio of the allowance for loan losses to gross portfolio loans (net of unearned income and excluding mortgage loans held for sale) at March 31, 2013 and December 31, 2012 was 3.18% and 3.04%, respectively. The decrease in the allowance for loan losses for the first quarter of 2013 was primarily a result of charge-offs recognized during the quarter for which specific provisions for loan losses had been previously provided. The provision for loan losses for the first quarter of 2013 was attributable to one nonperforming loan relationship for which the collateral was determined to be deficient. We believe the amount of the allowance for loan losses at March 31, 2013 is adequate to absorb the losses that can reasonably be anticipated from the loan portfolio at that date.

The following table presents an analysis of the changes in the allowance for loan losses for the periods indicated (in thousands).

	Three Months Ended March 31,	
	2013	2012
Beginning balance	$10,808	$16,071
Provision for loan losses	823	1,735
Charge-offs		
Construction and land development		
Residential	-	(59)
Commercial	(84)	(1,547)
Commercial real estate		
Commercial real estate - owner occupied	(136)	(29)
Commercial real estate - non-owner occupied	(256)	(91)
Consumer real estate		
Home equity lines	(55)	(122)
Secured by 1-4 family residential, secured by first deeds of trust	(343)	(966)
Secured by 1-4 family residential, secured by second deeds of trust	(215)	(191)
Commercial and industrial loans (except those secured by real estate)	(289)	(260)
Consumer and other	(4)	(270)
Total charge-offs	(1,382)	(3,535)
Recoveries		
Construction and land development		
Residential	1	1
Consumer real estate		
Home equity lines	-	1
Secured by 1-4 family residential, secured by first deeds of trust	8	61
Secured by 1-4 family residential, secured by second deeds of trust	3	-
Commercial and industrial loans (except those secured by real estate)	56	27
Consumer and other	3	1
Total recoveries	71	91
Net charge-offs	(1,311)	(3,444)
Ending balance	$10,320	$14,362
Loans outstanding at end of period(1)	$324,787	$412,732
Ratio of allowance for loan losses as a percent of loans outstanding at end of period	3.18%	3.48%
Average loans outstanding for the period(1)	$345,623	$420,220

Ratio of net charge-offs to average loans outstanding for the period	0.38 %	0.82 %

(1) Loans are net of unearned income.

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The allowance for loan losses as a percentage of net loans decreased from 3.48% at March 31, 2012 to 3.18% at March 31, 2013 primarily as a result of a significant charge-offs recognized during the prior year for which specific provisions for loan losses had been previously provided.

Asset quality

The following table summarizes asset quality information at the dates indicated (dollars in thousands).

	March 31, 2013		December 31, 2012		March 31, 2012	
Nonaccrual loans	$24,271		$25,605		$54,900	
Foreclosed properties	21,383		20,204		14,590	
Total nonperforming assets	$45,654		$45,809		$69,490	
Restructured loans still accruing	$30,003		$38,820		$15,321	
Loans past due 90 days and still accruing (not included in nonaccrual loans above)	$120		$115		$-	
Nonperforming assets to loans (1)	14.1	%	12.9	%	16.8	%
Nonperforming assets to total assets	9.3	%	9.0	%	12.5	%
Allowance for loan losses to nonaccrual loans	42.5	%	42.2	%	26.2	%

(1) Loans are net of deferred fees and costs.

The following table presents an analysis of the changes in nonperforming assets for the three months ended March 31, 2013 (dollars in thousands).

	Nonaccrual Loans		Foreclosed Properties		Total	
Balance December 31, 2012	$25,605		$20,204		$45,809	
Additions, net	4,860		69		4,929	
Transfers to OREO	(3,484	)	3,484		-	
Repayments	(1,398	)	-		(1,398	)
Charge-offs	(1,313	)	(1,044	)	(2,357	)
Sales			(1,330	)	(1,330	)
Balance March 31, 2013	$24,271		$21,383		$45,654	

Until a nonperforming restructured loan has performed in accordance with its restructured terms for a minimum of six months, it will remain on nonaccrual status.

Interest is accrued on outstanding loan principal balances, unless the Company considers collection to be doubtful. Commercial and unsecured consumer loans are designated as non-accrual when the Company considers collection of expected principal and interest doubtful. Mortgage loans and most other types of consumer loans past due 90 days or more may remain on accrual status if management determines that concern over our ability to collect principal and interest is not significant. When loans are placed in non-accrual status, previously accrued and unpaid interest is reversed against interest income in the current period and interest is subsequently recognized only to the extent cash is received. Interest accruals are resumed on such loans only when in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Of the total nonaccrual loans of $24,271,000 at March 31, 2013 that were considered impaired, 18 loans totaling $6,544,000 had specific allowances for loan losses totaling $2,322,000. This compares to $25,605,000 in nonaccrual loans at December 31, 2012 of which 15 loans totaling $4,648,000 had specific allowances for loan losses of $1,338,000.

Cumulative interest income that would have been recorded had nonaccrual loans been performing would have been approximately $1,143,000 and $1,808,000 at March 31, 2013 and 2012, respectively.

Deposits

Deposits as of March 31, 2013 and December 31, 2012 were as follows:

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Demand accounts	$62,301,743	14.8 %	$57,049,348	13.1 %
Interest checking accounts	43,567,794	10.3 %	45,861,199	10.5 %
Money market accounts	63,546,257	15.1 %	66,007,160	15.1 %
Savings accounts	20,469,642	4.9 %	20,922,112	4.8 %
Time deposits of $100,000 and over	107,426,419	25.5 %	113,332,481	26.0 %
Other time deposits	124,107,390	29.4 %	133,150,662	30.5 %
Total	$421,419,245	100.0 %	$436,322,962	100.0 %

Total deposits decreased by $14,904,000, or 3.4%, from $436,323,000 at December 31, 2012 to $421,419,000 at March 31, 2013, as compared to a decrease of $20,128,000, or 4.1%, during the first three months of 2012. Checking and savings accounts increased by $2,507,000, money market accounts decreased by $2,461,000 and time deposits decreased by $14,949,000. The decline in time deposits was a result of the branch sale as well as repricing maturing time deposits at rates below market for noncore depositors. The cost of our interest bearing deposits declined to 1.12% for the first quarter of 2013 compared to 1.20% for the fourth quarter of 2012 and 1.34% for the first quarter of 2012.

The variety of deposit accounts that we offer has allowed us to be competitive in obtaining funds and has allowed us to respond with flexibility to, although not to eliminate, the threat of disintermediation (the flow of funds away from depository institutions such as banking institutions into direct investment vehicles such as government and corporate securities). Our ability to attract and retain deposits, and our cost of funds, has been, and is expected to continue to be, significantly affected by money market conditions.

Borrowings

We utilize borrowings to supplement deposits when they are available at a lower overall cost to us or they can be invested at a positive rate of return.

As a member of the Federal Home Loan Bank of Atlanta (“FHLB”), the Bank is required to own capital stock in the FHLB and is authorized to apply for borrowings from the FHLB. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB may prescribe the acceptable uses to which the advances may be put, as well as on the size of the advances and repayment provisions. Borrowings from the FHLB were $27,000,000 and $28,000,000 at March 31, 2013 and December 31, 2012, respectively. The FHLB advances are secured by the pledge of residential mortgage loans.

Capital resources

Stockholders’ equity at March 31, 2013 was $24,226,000, compared to $24,965,000 at December 31, 2012. On May 1, 2009, the Company received a $14,738,000 investment by the United States Department of the Treasury under its Capital Purchase Program (the TARP Program). The TARP Program is a voluntary program designed to provide capital for healthy banks to improve the flow of funds from banks to their customers. Under the TARP Program, the Company issued to the Treasury $14,738,000 of preferred stock and warrants to purchase 499,030 shares of the Company’s common stock at a purchase price of $4.43 per share. The preferred stock issued by the Company under the TARP Capital Purchase Program carries a 5% dividend until May 1, 2014, and 9% thereafter, unless the shares are redeemed by the Company. The $739,000 decrease in equity during the first three months of 2013 was primarily due to the net loss available to common shareholders of $(732,000).

During the first quarter of 2005, the Company issued $5.2 million in Trust Preferred Capital Notes to increase its regulatory capital and to help fund its expected growth in 2005. During the third quarter of 2007, the Company issued $3.6 million in Trust Preferred Capital Notes to partially fund the construction of an 80,000 square foot building completed in 2008. The Trust Preferred Capital Notes may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion.

The Company is currently prohibited by its Written Agreement with the Reserve Bank from making dividend or interest payments on the TARP program preferred stock or trust preferred capital notes without prior regulatory approval. In addition, the Consent Order with the FDIC and BFI provides that the Bank will not pay any dividends, pay bonuses or make any other form of payment outside the ordinary course of business resulting in a reduction in capital, without regulatory approval. At March 31, 2013, the aggregate amount of all of the Company’s total accrued but deferred dividend payments on TARP was $1,565,912 and interest payments on trust preferred capital notes was $716,347.

In June 2012 as a result of the unpaid dividends, Treasury requested that an observer appointed by Treasury be allowed to attend the Company’s meetings of its board of directors. The observer started attending board meetings in August 2012. Treasury has the contractual right to nominate up to two members to the board of directors upon the Company’s sixth deferred dividend payment. The Company has deferred eight dividend payments as of March 31, 2013. However, Treasury has not indicated at this time it will nominate two directors to our board.

The Company is currently evaluating potential sources of additional capital, with the objective is to become compliant with the capital requirements of the Consent Order as soon as practically possible. In addition the Company is considering various alternatives for the repayment of the preferred stock issued under the TARP Program. However, no assurance can be given that sources of new capital will be received.

The following table presents the composition of regulatory capital and the capital ratios for the Company at the dates indicated (dollars in thousands).

	March 31, 2013	December 31, 2012
Tier 1 capital		
Preferred stock	$ 59	$ 59
Common stock	17,007	17,007
Additional paid-in capital	40,705	40,705
Retained earnings (deficit)	(33,906)	(33,174)
Warrant surplus	732	732
Discount on preferred stock	(162)	(199)
Qualifying trust preferred securities	3,062	3,306
Less intangible assets	(369)	(393)
Total Tier 1 capital	27,128	28,043
Tier 2 capital		
Qualifying trust preferred securities	5,702	5,458
Allowance for loan losses	4,406	4,795
Total Tier 2 capital	10,108	10,253
Total risk-based capital	37,236	38,296
Risk-weighted assets	$ 346,599	$ 377,572
Average assets	$ 500,511	$ 505,046
Capital ratios		
Leverage ratio (Tier 1 capital to average assets)	5.42 %	5.55 %
Tier 1 capital to risk-weighted assets	7.83 %	7.43 %
Total capital to risk-weighted assets	10.74 %	10.14 %
Equity to total assets	5.09 %	4.89 %

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The following table presents the composition of regulatory capital and the capital ratios for the Bank at the dates indicated (dollars in thousands).

	March 31, 2013	December 31, 2012
Tier 1 capital		
Common stock	$ 6,849	$ 6,849
Additional paid-in capital	55,407	55,406
Retained earnings (deficit)	(29,349)	(28,925)
Less intangible assets	(369)	(393)
Total Tier 1 capital	32,538	32,937
Tier 2 capital		
Allowance for loan losses	4,405	4,769
Total Tier 2 capital	4,405	4,769
Total risk-based capital	36,943	37,706
Risk-weighted assets	$ 346,452	$ 375,451
Average assets	$ 500,084	$ 505,150
Capital ratios		
Leverage ratio (Tier 1 capital to average assets)	6.51 %	6.52 %
Tier 1 capital to risk-weighted assets	9.39 %	8.77 %
Total capital to risk-weighted assets	10.66 %	10.04 %
Equity to total assets	6.71 %	6.55 %

Federal regulatory agencies are required by law to adopt regulations defining five capital tiers: well capitalized, adequately capitalized, under capitalized, significantly under capitalized, and critically under capitalized. The Bank met the ratio requirements to be categorized as a "well capitalized" institution as of December 31, 2012, 2011 and 2010. However, due to the minimum capital ratios required by the Consent Order, the Bank currently is considered adequately capitalized. The Consent Order requires the Bank to maintain a leverage ratio of at least 8% and a total capital to risk-weighted assets ratio of at least 11%. At March 31, 2013, the Bank's leverage ratio was 6.51% and the total capital to risk-weighted assets ratio was 10.66%. As required by the Consent Order the Bank has provided a capital plan to the FDIC and BFI that demonstrates how the Bank will come into compliance with the required minimum capital ratios set forth in the Consent Order. When capital falls below the "well capitalized" requirement, consequences can include: new branch approval could be withheld; more frequent examinations by the FDIC; brokered deposits cannot be renewed without a waiver from the FDIC; and other potential limitations as described in FDIC Rules and Regulations sections 337.6 and 303, and FDIC Act section 29. In addition, the FDIC insurance assessment increases when an institution falls below the "well capitalized" classification.

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day

cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

At March 31, 2013, our liquid assets, consisting of cash, cash equivalents and investment securities available for sale totaled $98,773,000, or 20% of total assets. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, approximately $5,889,000 of these securities are pledged against borrowings. Therefore, the related borrowings would need to be repaid prior to the securities being sold in order for these securities to be converted to cash.

Our holdings of liquid assets plus the ability to maintain and expand our deposit base and borrowing capabilities serve as our principal sources of liquidity. We plan to meet our future cash needs through the liquidation of temporary investments, the generation of deposits, and from additional borrowings. In addition, we will receive cash upon the maturity and sale of loans and the maturity of investment securities. We maintain two federal funds lines of credit with correspondent banks totaling $22 million for which there were no borrowings against the lines at March 31, 2013.

At March 31, 2013, we had commitments to originate $70,020,000 of loans. Fixed commitments to incur capital expenditures were less than $25,000 at March 31, 2013. Certificates of deposit scheduled to mature in the 12-month period ending March 31, 2014 totaled $82,588,000. We believe that a significant portion of such deposits will remain with us. We further believe that deposit growth, loan repayments and other sources of funds will be adequate to meet our foreseeable short-term and long-term liquidity needs.

Interest rate sensitivity

An important element of asset/liability management is the monitoring of our sensitivity to interest rate movements. In order to measure the effects of interest rates on our net interest income, management takes into consideration the expected cash flows from the securities and loan portfolios and the expected magnitude of the repricing of specific asset and liability categories. We evaluate interest sensitivity risk and then formulate guidelines to manage this risk based on management's outlook regarding the economy, forecasted interest rate movements and other business factors. Our goal is to maximize and stabilize the net interest margin by limiting exposure to interest rate changes.

Contractual principal repayments of loans do not necessarily reflect the actual term of our loan portfolio. The average lives of mortgage loans are substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which gives us the right to declare a loan immediately due and payable in the event, among other things, the borrower sells the real property subject to the mortgage and the loan is not repaid. In addition, certain borrowers increase their equity in the security property by making payments in excess of those required under the terms of the mortgage.

The sale of fixed rate loans is intended to protect us from precipitous changes in the general level of interest rates. The valuation of adjustable rate mortgage loans is not as directly dependent on the level of interest rates as is the value of fixed rate loans. As with other investments, we regularly monitor the appropriateness of the level of adjustable rate mortgage loans in our portfolio and may decide from time to time to sell such loans and reinvest the proceeds in other adjustable rate investments.

The data in the following table reflects repricing or expected maturities of various assets and liabilities at March 31, 2013. The gap analysis represents the difference between interest-sensitive assets and liabilities in a specific time interval. Interest sensitivity gap analysis presents a position that existed at one particular point in time, and assumes that assets and liabilities with similar repricing characteristics will reprice at the same time and to the same degree.

Village Bank and Trust Financial Corp.
Interest Rate Sensitivity GAP Analysis
March 31, 2013
(In thousands)

	Within 3 Months	3 to 6 Months	6 to 12 Months	13 to 36 Months	More than 36 Months	Total
Interest Rate Sensitive Assets						
Loans (1)						
Fixed rate	$6,175	$10,981	$13,716	$21,503	$77,040	$129,415
Variable rate	40,767	10,732	25,653	34,475	82,962	194,589
Investment securities	-	-		-	29,635	29,635
Loans held for sale	16,378	-	-	-	-	16,378
Federal funds sold	56,797	-	-	-	-	56,797
Total rate sensitive assets	120,117	21,713	39,369	55,978	189,637	426,814
Cumulative rate sensitive assets	120,117	141,830	181,199	237,177	426,814	
Interest Rate Sensitive Liabilities						
Interest checking	-	-	-	43,568	-	43,568
Money market accounts	63,546	-	-	-	-	63,546
Savings	-	-	-	20,470	-	20,470
Certificates of deposit	13,461	28,733	40,394	94,233	54,713	231,534
FHLB advances	4,000	5,000	1,000	16,000	1,000	27,000
Trust Preferred Securities	-	-	-		8,764	8,764
Other borrowings	1,882	-	-	-	-	1,882
Total rate sensitive liabilities	82,889	33,733	41,394	174,271	64,477	396,764
Cumulative rate sensitive liabilities	82,889	116,622	158,016	332,287	396,764	
Rate sensitivity gap for period	$37,228	$(12,020)	$(2,025)	$(118,293)	$125,160	$30,050
Cumulative rate sensitivity gap	$37,228	$25,208	$23,183	$(95,110)	$30,050	
Ratio of cumulative gap to total assets	7.6%	5.1%	4.7%	(19.4)%	6.1%	

Ratio of cumulative rate sensitive assets to cumulative rate sensitive liabilities	144.9	%	121.6	%	114.7	%	71.4	%	107.6	%
Ratio of cumulative gap to cumulative rate sensitive assets	31.0	%	17.8	%	12.8	%	(40.1	)%	7.0	%

(1) Includes nonaccrual loans of approximately $24,271,000, which are spread throughout the categories.

At March 31, 2013, our balance sheet is asset sensitive for the next twelve months, meaning that our assets reprice more quickly than our liabilities during that period, and liability sensitive for the next thirteen to thirty-six months, meaning that our liabilities will reprice more quickly than our assets during that period, with a ratio of cumulative gap to total assets ranging from a positive gap of 7.6% for the first three months to a negative gap of (19.4)% for the thirteen to thirty-six month period. A negative gap can adversely affect earnings in periods of increasing interest rates. Given the Federal Reserve's recent announcement that it will maintain short-term interest rates at current levels until the end of 2014, we do not expect interest rates to increase in the foreseeable future. However, we believe our balance sheet should be asset sensitive and, accordingly, we have adopted pricing policies to lengthen the maturities/repricing of our liabilities relative to the maturities/pricing or our assets.

Critical accounting policies

General

The accounting and reporting policies of the Company and its subsidiary are in accordance with accounting principles generally accepted in the United States of America ("GAAP") and conform to general practices within the banking industry. The Company's financial position and results of operations are affected by management's application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities, and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's consolidated financial position and/or results of operations.

The more critical accounting and reporting policies include the Company's accounting for the allowance for loan losses, troubled debt restructurings, real estate acquired in settlement of loans and income taxes. The Company's accounting policies are fundamental to understanding the Company's consolidated financial position and consolidated results of operations.

The following is a summary of the Company's critical accounting policies that are highly dependent on estimates, assumptions, and judgments.

Allowance for loan losses

We monitor and maintain an allowance for loan losses to absorb an estimate of probable losses inherent in the loan portfolio. We maintain policies and procedures that address the systems of controls over the following areas of maintenance of the allowance: the systematic methodology used to determine the appropriate level of the allowance to provide assurance they are maintained in accordance with accounting principles generally accepted in the United States of America; the accounting policies for loan charge-offs and recoveries; the assessment and measurement of impairment in the loan portfolio; and the loan grading system.

The allowance reflects management's best estimate of probable losses within the existing loan portfolio and of the risk inherent in various components of the loan portfolio, including loans identified as impaired as required by FASB Codification Topic 310: Receivables. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment.

Loans are grouped by similar characteristics, including the type of loan, the assigned loan classification and the general collateral type. A loss rate reflecting the expected loss inherent in a group of loans is derived based upon estimates of default rates for a given loan grade, the predominant collateral type for the group and the terms of the loan. The resulting estimate of losses for groups of loans is adjusted for relevant environmental factors and other conditions of the portfolio of loans and leases, including: borrower and industry concentrations; levels and trends in delinquencies, charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience, ability and depth of lending management; and national and local economic conditions.

The amounts of estimated impairment for individually evaluated loans and groups of loans are added together for a total estimate of loan losses. This estimate of losses is compared to our allowance for loan losses as of the evaluation date and, if the estimate of losses is greater than the allowance, an additional provision to the allowance would be made. If the estimate of losses is less than the allowance, the degree to which the allowance exceeds the estimate is evaluated to determine whether the allowance falls outside a range of estimates. If the estimate of losses is below the range of reasonable estimates, the allowance would be reduced by way of a credit to the provision for loan losses. We recognize the inherent imprecision in estimates of losses due to various uncertainties and variability related to the factors used, and therefore a reasonable range around the estimate of losses is derived and used to ascertain whether the allowance is too high. If different assumptions or conditions were to prevail and it is determined that the allowance is not adequate to absorb the new estimate of probable losses, an additional provision for loan losses would be made, which amount may be material to the financial statements.

Troubled debt restructurings

A loan is accounted for as a troubled debt restructuring if we, for economic or legal reasons, grant a concession to a borrower considered to be experiencing financial difficulties that we would not otherwise consider. A troubled debt restructuring may involve the receipt of assets from the debtor in partial or full satisfaction of the loan, or a modification of terms such as a reduction of the stated interest rate or balance of the loan, a reduction of accrued interest, an extension of the maturity date or renewal of the loan at a stated interest rate lower than the current market rate for a new loan with similar risk, or some combination of these concessions. Troubled debt restructurings can be in either accrual or nonaccrual status. Nonaccrual troubled debt restructurings are included in nonperforming loans. Accruing troubled debt restructurings are generally excluded from nonperforming loans as it is considered probable that all contractual principal and interest due under the restructured terms will be collected. Troubled debt restructurings generally remain categorized as nonperforming loans and leases until a six-month payment history has been maintained.

In accordance with current accounting guidance, loans modified as troubled debt restructurings are, by definition, considered to be impaired loans. Impairment for these loans is measured on a loan-by-loan basis similar to other impaired loans as described above under Allowance for loan losses. Certain loans modified as troubled debt restructurings may have been previously measured for impairment under a general allowance methodology (i.e., pooling), thus at the time the loan is modified as a troubled debt restructuring the allowance will be impacted by the difference between the results of these two measurement methodologies. Loans modified as troubled debt restructurings that subsequently default are factored into the determination of the allowance in the same manner as other defaulted loans.

Real estate acquired in settlement of loans

Real estate acquired in settlement of loans represent properties acquired through foreclosure or physical possession. Write-downs to fair value of foreclosed assets at the time of transfer are charged to allowance for loan losses. Subsequent to foreclosure, the Company periodically evaluates the value of foreclosed assets held for sale and records an impairment charge for any subsequent declines in fair value less selling costs. Subsequent declines in value are charged to operations. Fair value is based on an assessment of information available at the end of a reporting period and depends upon a number of factors, including historical experience, economic conditions, and issues specific to individual properties. The evaluation of these factors involves subjective estimates and judgments that may change.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance may be established. Management considers the determination of this valuation allowance to be a critical accounting policy due to the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amounts of taxes recoverable through loss carry backs decline, or if management projects lower levels of future taxable income. Management determined that as of December 31, 2012 and March 31, 2013, the objective negative evidence represented by the Company's recent losses outweighed the more subjective positive evidence and, as a result, recognized a valuation allowance of $10,158,000 and $10,368,000, respectively, representing 100% of the net deferred tax asset at the indicated date.

New accounting standards

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU requires an entity to report, either on the face of the income statement or in the notes to the financial statements, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in the income statement if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other required disclosures that provide additional detail about those amounts. This ASU is effective prospectively in the first quarter of 2013. The Company has included the required disclosures from ASU 2013-02 in the consolidated financial statements.

Impact of inflation and changing prices

The Company's consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles in the United States, which require the Company to measure financial position and operating results primarily in terms of historical dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4 – CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) as of March 31, 2013. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as of March 31, 2013 in ensuring that all material information required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed summarized and reported with the time periods specified in SEC rules and regulations and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. There were no changes in our internal control over financial reporting identified in connection with the evaluation of it that occurred during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

Not applicable.

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

Not applicable.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

In consideration of our agreements with our regulators, which require regulatory approval to make dividend payment son our preferred stock, the Company notified the U.S. Treasury in May 2011 that the Company was going to defer the payment of the quarterly cash dividend of $184,225 due on May 16, 2011, and subsequent quarterly payments, on the Preferred Stock. The total arrearage on such preferred stock as of March 31, 2013 was $1,565,912.

ITEM 4 – MINE SAFETY DISCLOSURES

ITEM 5 – OTHER INFORMATION

Not applicable.

ITEM 6 – EXHIBITS

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Statement of Chief executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350

101 The following materials from the Village Bank and Trust Financial Corp. Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

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

VILLAGE BANK AND TRUST FINANCIAL CORP.
(Registrant)

Date:	May 15, 2013	By:	/s/ Thomas W. Winfree Thomas W. Winfree President and Chief Executive Officer
Date:	May 15, 2013	By:	/s/ C. Harril Whitehurst, Jr. C. Harril Whitehurst, Jr. Senior Vice President and Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Document
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Statement of Chief executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101	The following materials from the Village Bank and Trust Financial Corp. Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.