

Village Bank & Trust Financial Corp.
Form DEF 14A
April 20, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

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

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

[]

Preliminary Proxy Statement

[]

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

[X]

Definitive Proxy Statement

[]

Definitive Additional Materials

[]

Soliciting Material Pursuant to § 240.14a-12

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

[X]

No fee required.

[]

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1)

Title of each class of securities to which transaction applies:

(2)

Aggregate number of securities to which transaction applies:

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4)

Proposed maximum aggregate value of transaction:

(5)

Total fee paid:

[]

Fee paid previously with preliminary materials:

[]

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

(1)

Amount Previously Paid:

(2)

Form, Schedule or Registration Statement No.:

(3)

Filing Party:

(4)

Date Filed:



Dear Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of Village Bank and Trust Financial Corp. (the Company), which will be held on:

May 22, 2007 at 6:00 p.m.

Salisbury Country Club

13620 Salisbury Road

Midlothian, Virginia, 23113

At the Annual Meeting, you will be asked to (a) elect three directors for a term of three years each; (b) ratify the appointment of the independent registered public accounting firm for the Company for 2007; and (c) transact such other business as may properly come before the Annual Meeting. Enclosed with this letter is a formal notice of the Annual Meeting, a Proxy Statement and a proxy form.

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

The Board of Directors and Management of the Company appreciate your continued support and look forward to seeing you at the Annual Meeting.

Sincerely,

Thomas W. Winfree

President and Chief Executive Officer

Midlothian, Virginia

April 20, 2007

1231 Alverser Drive

Midlothian, Virginia 23113

(804) 897-3900

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Village Bank and Trust Financial Corp. (the Company) will be held at Salisbury Country Club, 13620 Salisbury Road, Midlothian, Virginia on May 22, 2007 at 6:00 p.m. for the following purposes:

1. To elect three directors for a term of three years each;
2. To ratify the appointment of BDO Seidman, LLP as the Company's independent registered public accounting firm for the year ending December 31, 2007; and
3. To transact such other business as may properly come before the Annual Meeting. Management is not aware of any other business, other than procedural matters incident to the conduct of the Annual Meeting.

The Board of Directors has fixed the close of business on April 6, 2007 as the record date for determining the shareholders of the Company entitled to notice of, and to vote at, the Annual Meeting and any adjournments thereof.

Presented by Order of the Board of Directors,

C. Harril Whitehurst, Jr.

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Senior Vice President, Chief Financial

Officer, Corporate Secretary

Midlothian, Virginia

April 20, 2007

PROXY STATEMENT OF

VILLAGE BANK AND TRUST FINANCIAL CORP.

This Proxy Statement is furnished to holders of shares of the Company's common stock, par value \$4.00 per share (Common Stock), in connection with the solicitation of proxies by the Board of Directors of the Company to be used at the Annual Meeting of Shareholders to be held on May 22, 2007 at Salisbury Country Club, 13620 Salisbury Road, Midlothian, Virginia at 6:00 p.m. and any adjournment thereof (the Annual Meeting).

Any shareholder who executes a proxy has the power to revoke it at any time by written notice to the Secretary of the Company, by executing a proxy dated as of a later date, or by voting in person at the Annual Meeting. It is expected that this Proxy Statement and the enclosed proxy form will be mailed on or about April 20, 2007 to all shareholders entitled to vote at the Annual Meeting.

The cost of soliciting proxies for the Annual Meeting will be borne by the Company. The Company does not intend to solicit proxies otherwise than by use of the mail, but certain officers and regular employees of the Company, without additional compensation, may use their personal efforts, by telephone or otherwise, to obtain proxies. The Company may also reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses in forwarding proxy materials to the beneficial owners of shares of Common Stock.

On April 6, 2007, the record date for determining those shareholders entitled to notice of and to vote at the Annual Meeting, there were 2,562,088 shares of Common Stock issued and outstanding. Each outstanding share of Common Stock is entitled to one vote on all matters to be acted upon at the Annual Meeting. A majority of the shares of Common Stock entitled to vote, represented in person or by proxy, constitutes a quorum for the transaction of business at the Annual Meeting.

A shareholder may abstain or (only with respect to the election of directors) withhold his or her vote (collectively Abstentions) with respect to each item submitted for shareholder approval. Abstentions will be counted for purposes of determining the existence of a quorum. Abstentions will not be counted as voting in favor of or against the relevant item.

A broker who holds shares in street name has the authority to vote on certain items when it has not received instructions from the beneficial owner. Except for certain items for which brokers are prohibited from exercising their discretion, a broker is entitled to vote on matters put to shareholders without instructions from the beneficial owner. Where brokers do not have such discretion, the inability to vote is referred to as a broker non-vote. Under the circumstances where the broker is not permitted to exercise its discretion, assuming proper disclosure to the Company of such inability to vote, broker non-votes will not be counted as voting in favor of or against the particular matter.

The Board of Directors is not aware of any matters other than those described in this Proxy Statement that may be presented for action at the Annual Meeting. However, if other matters do properly come before the Annual Meeting, the persons named in the enclosed proxy card possess discretionary authority to vote in accordance with their best judgment with respect to such other matters.

PROPOSAL ONE

ELECTION OF DIRECTORS

The Board of Directors consists of nine directors. Three members of the Board of Directors have been nominated for election as directors at the Annual Meeting for a three-year term ending in 2010. Six other directors are serving terms that end in either 2008 or 2009, as indicated below.

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

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

The following biographical information discloses each nominee's age, business experience in the past five years and the year each individual was first elected to the Board of Directors of the Company or its predecessor, Village Bank (the "Bank"). Unless otherwise specified, each nominee has held his current position for at least five years.

Nominees for Election as Directors

For Three-Year Terms to Expire in 2010 (Class A)

Craig D. Bell, 49, is a founder of the Bank and has been a director since 1998. Mr. Bell is Chairman of the Board of Directors of the Company. He is a partner with the law firm of McGuireWoods LLP, where he is a member of the Business Tax Department and is the head of the State and Local Tax and Tax Litigation Groups. Mr. Bell is on the Board of Directors of the Community Tax Law Project,

a non-profit provider of pro bono tax assistance to low income families; a Fellow of the American College of Tax Council; former Chair of both the Virginia State Bar Section of Taxation and the Virginia Bar Association Tax Section; a member of the Edgar J. Murdock Inn of Court for Tax; an adjunct Professor of Law at the College of William and Mary School of Law; and a Trustee of the Virginia War Museum. Mr. Bell retired from the Army Reserves in 2006 as a Lieutenant Colonel after completing 27 years of service.

George R. Whittemore, 57, has been a director since 1998. Mr. Whittemore is currently retired. He is a member of the Board of Directors of Supertel Hospitality, Inc. (formerly Humphrey Hospitality Trust, Inc.), a publicly-traded real estate investment trust that owns limited service hotels. He was a consultant to Supertel Hospitality, Inc. from August 2004 to August 2005 and its President from November 2001 to August 2004. Mr. Whittemore served as a Director and Senior Vice President/Senior Administrative Officer of Anderson & Strudwick, Inc., a brokerage firm, from November 1996 until November 2001. Mr. Whittemore is a director of Prime Group Realty Trust, Inc., a publicly traded real estate investment trust that primarily owns commercial office buildings. He is also a director of Lightstone Value Plus REIT, a non-publicly traded real estate investment trust that owns various types of income producing real estate.

Thomas W. Winfree, age 62, has been a director since 2001. Mr. Winfree has served as Chief Executive Officer and President of the Company since its inception. He has also served as President and Chief Executive Officer of Village Bank since 2001. Mr. Winfree has over 37 years of banking experience. He served as President of the Chesterfield Chamber of Commerce during 2004. Mr. Winfree is also a founding member and Director of the Families of the Wounded Fund, Inc., an organization dedicated to helping families of wounded soldiers.

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

Incumbent Directors

Whose Terms Expire in 2008 (Class B)

R. T. Avery, III, 57, has been a director since 1998. Mr. Avery is President and co-founder of Chesterfield Construction Services, Inc., which trades as Emerald Homes. This company specializes in the starter-home sector of the residential construction market.

William B. Chandler, 57, has been a director since 1998. Mr. Chandler is a co-owner in two corporations: Manchester Industries, Inc., which converts board and paper into sheets from roll stock for the printing industries, and Plastex Fabricators, Inc., which is a fabricator of industrial and commercial plastics used for décor in the retail industry. He currently is responsible for engineering, construction,

safety and production of Manchester Industries and serves as its Vice President. Mr. Chandler is President of Plastex Fabricators located in Charlotte, North Carolina.

R. Calvert Esleeck, Jr., 62, has been a director since 1998. Mr. Esleeck is a practicing certified public accountant. He is President of the Midlothian area firm of Murray & Esleeck, P.C. He is licensed in Virginia and is a member of the American Institute of CPAs and the Virginia Society of CPAs. Mr. Esleeck is a combat veteran of the Vietnam War where he served as a Marine infantry officer. He also serves as President of the Families of the Wounded Fund, Inc., which provides assistance to the families of the wounded servicemen and women being treated at McGuire Veterans Hospital.

Incumbent Directors

Whose Terms Expire in 2009 (Class C)

Donald J. Balzer, Jr., 51, has been a director since 1998. Mr. Balzer is Chairman of the Board of Balzer & Associates, Inc., an architectural, engineering, surveying and landscape architectural firm. He is a Licensed Professional Engineer and served as President of Balzer & Associates, Inc. until his retirement in 2005. He currently serves as President of Cross Creek Development Corp.

Dean T. Patrick, 46, is a founder of the Bank and has been a director since 1998. Mr. Patrick has been President of Patrick Construction for the past 25 years and a developer for 12 years. Mr. Patrick is also a licensed real estate broker and President of Ted Patrick Realty.

Michael L. Toalson, age 54, has been a director since 2004. Mr. Toalson is Executive Vice President of the HomeBuilders Association of Virginia. He heads the HBAV lobbying team before state lawmakers and regulators and is the chief administrative officer of the organization's 6,000 members.

Executive Officers Who Are Not Directors

Jack M. Robeson, 58, has served as Senior Vice President - Lending of the Bank since August 2001. Mr. Robeson served as Vice President for Bank of Essex from January 1996 to August 2001. Mr. Robeson has over 32 years of banking industry experience.

Raymond E. Sanders, 53, has served as Senior Vice President of the Company since its inception. He has served as Senior Vice President and Chief Operating Officer of the Bank since June 2004 and served as Vice President - Retail Banking from July 2002 to June 2004. Mr. Sanders previously served as President of Seasons Mortgage Group from October 1993 until the company was sold in May 2001. He has over 30 years of experience in retail and mortgage banking.

C. Harril Whitehurst, Jr., 56, has served as Senior Vice President and Chief Financial Officer of the Company since its inception. He has served as Senior Vice President and Chief Financial Officer of the Bank since September 2003. Mr. Whitehurst served as a Director for RSM McGladrey from July 2000 to September 2003. Mr. Whitehurst has over 30 years experience in providing audit, accounting and business advice to financial institutions.

Dennis J. Falk, 48, has served as Senior Vice President - Commercial Banking of the Bank since April 2006. Prior to that, Mr. Falk served as Senior Vice President for SunTrust Bank and was employed by SunTrust (and its predecessor bank in the MidAtlantic region, Crestar Bank) for 14 years. Mr. Falk has over 26 years of banking industry experience.

SECURITY OWNERSHIP**Security Ownership of Management**

The following table sets forth, as of February 1, 2007, unless otherwise noted, certain information with respect to beneficial ownership of shares of Common Stock by each of the members of the Board of Directors, by the executive officers named in the Summary Compensation Table below, by owners of more than 5% of shares of Common Stock known to the Company, and by all directors and executive officers as a group. Beneficial ownership includes shares, if any, held in the name of the spouse, minor children or other relatives of a director living in such person's home, as well as shares, if any, held in the name of another person under an arrangement whereby the director or executive officer can vest title in himself at once or at some future time.

VILLAGE BANK AND TRUST FINANCIAL CORP.**Beneficial Ownership**

<i>Name</i>	<i>Amount and Nature of Beneficial Ownership</i>	<i>Percent of Class (%)</i>
<u>Directors:</u>		
R. T. Avery, III ⁽¹⁾	71,481	2.78%
Donald J. Balzer, Jr. ⁽²⁾	61,916	2.40%
Craig D. Bell ⁽³⁾	69,012	2.67%
William B. Chandler ⁽⁴⁾	64,711	2.51%
R. Calvert Esleeck, Jr. ⁽⁵⁾	29,211	1.13%
Dean T. Patrick ⁽⁶⁾	52,278	2.03%
Michael L. Toalson ⁽⁷⁾	6,611	0.26%
George R. Whittemore ⁽⁸⁾	27,911	1.08%
Thomas W. Winfree ⁽⁹⁾	95,754	3.66%
<u>Executive Officers:</u>		
Dennis J. Falk ⁽¹⁰⁾	4,000	0.16%
Jack M. Robeson ⁽¹¹⁾	21,100	0.82%
Raymond E. Sanders ⁽¹²⁾	25,300	0.98%
C. Harril Whitehurst, Jr. ⁽¹³⁾	31,893	1.23%
<u>Certain Beneficial Owners:</u>		
John S. Clark ⁽¹⁴⁾ 1633 Broadway, 30th Floor New York, NY 10019	166,500	6.50%
Directors and executive officers as a group (13 persons)	578,678	20.63%

- (1) Amount disclosed includes 2,500 shares of Common Stock owned by Mr. Avery; 5,200 shares of Common Stock in Mr. Avery's Simplified Employee Pension Plan; 1,200 shares of Common Stock in Mr. Avery's IRA account; 200 shares of Common Stock in Mr. Avery's 401(k) account; 870 shares of Common Stock owned by Mr. Avery's children; 48,900 shares of Common Stock owned by Mr. Avery's spouse; options to acquire 10,111 shares of Common Stock; and warrants to acquire 2,500 shares of Common Stock.
- (2) Amount disclosed includes 40,240 shares of Common Stock owned by Mr. Balzer; 2,265 shares of Common Stock in Mr. Balzer's IRA account; 3,700 shares of Common Stock owned by DJB Family Ltd. Partnership; 200 shares of Common Stock owned by Mr. Balzer's spouse; 2,900 shares of Common Stock owned by Mr. Balzer's children; options to acquire 10,111 shares of Common Stock; and warrants to acquire 2,500 shares of Common Stock.
- (3) Amount disclosed includes 41,100 shares of Common Stock owned by Mr. Bell; 8,200 shares of Common Stock in Mr. Bell's IRA account; 1,000 shares owned by Mr. Bell's father; 100 shares owned jointly with Mr. Bell's brother; options to acquire 16,112 shares of Common Stock; and warrants to acquire 2,500 shares of Common Stock.
- (4) Amount disclosed includes 45,600 shares of Common Stock owned by Mr. Chandler; 4,000 shares of Common Stock owned by Mr. Chandler's children; options to acquire 10,111 shares of Common Stock; and warrants to acquire 5,000 shares of Common Stock.
- (5) Amount disclosed includes 4,900 shares of Common Stock owned by Mr. Esleeck; 190 shares of Common Stock in Mr. Esleeck's Roth IRA account; 1,266 shares of Common Stock in Mr. Esleeck's IRA account; 10,244 shares of Common Stock owned by Mr. Esleeck's spouse and children; options to acquire 10,111 shares of Common Stock; and warrants to acquire 2,500 shares of Common Stock.
- (6) Amount disclosed includes 15,690 shares of Common Stock owned by Mr. Patrick; 16,177 shares of Common Stock in Mr. Patrick's IRA account; 1,800 shares of Common Stock owned by Mr. Patrick's children and parents; options to acquire 16,111 shares of Common Stock; and warrants to acquire 2,500 shares of Common Stock.
- (7) Amount disclosed includes 4,270 shares of Common Stock owned by Mr. Toalson; 730 shares of Common Stock in Mr. Toalson's IRA account; and options to acquire 1,611 shares of Common Stock.
- (8) Amount disclosed includes 2,600 shares of Common Stock owned by Mr. Whittemore; 1,300 shares of Common Stock in Mr. Whittemore's IRA account; 2,400 shares of Common Stock in Mr. Whittemore's Simple IRA account; 9,000 shares of Common Stock owned by Mr. Whittemore's spouse; options to acquire 10,111 shares of Common Stock; and warrants to acquire 2,500 shares of Common Stock.
- (9) Amount disclosed includes 43,240 shares of Common Stock owned by Mr. Winfree; 596 shares of Common Stock in Mr. Winfree's IRA account; 768 shares of Common Stock in Mr. Winfree's Roth IRA account; and options to acquire 51,150 shares of Common Stock.
- (10) Amount disclosed includes 1,000 shares of Common Stock owned by Mr. Falk and options to acquire 3,000 shares of Common Stock.
- (11) Amount disclosed includes options to acquire 21,100 shares of Common Stock.
- (12) Amount disclosed includes 200 shares of Common Stock owned by Mr. Sanders and options to acquire 25,100 shares of Common Stock.
- (13) Amount disclosed includes 4,793 shares of Common Stock owned by Mr. Whitehurst and options to acquire 27,100 shares of Common Stock.
- (14) In February 2007, the Company confirmed the following information directly with Mr. Clark: Mr. Clark beneficially owns 166,500 shares of Common Stock. Mr. Clark has sole voting and dispositive power with respect to 134,500 shares of Common Stock, which includes 12,000 shares of Common Stock held by trusts for which he serves as sole trustee. Mr. Clark has shared voting and dispositive power with respect to 32,000 shares of Common Stock deemed beneficially owned by his spouse.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires the Company's directors and executive officers, and any persons who own more than 10% of the outstanding shares of Common Stock, to file reports of ownership and changes in ownership of Common Stock. Officers and directors are required by regulations to furnish the Company with copies of all Section 16(a) reports that they file. Based solely on review of the copies of such reports furnished to the Company and the Bank or written representation that no other reports were required, the Company believes that, during fiscal year 2006, our directors and executive officers complied with all applicable Section 16(a) filing requirements, except that C. Harril Whitehurst, Jr., an executive officer, inadvertently filed a late report on Form 4 covering the exercise of common stock purchase warrants in May and June 2006; Jack M. Robeson, an executive officer, inadvertently filed a late report on Form 4 covering the disposition of common stock in December 2005; George R. Whittemore, a Director, inadvertently filed a late report on Form 4 covering the exercise of common

stock purchase warrants in May 2006; William B. Chandler, a Director, inadvertently filed two late reports on Form 4 covering the exercise of common stock purchase warrants in June and October 2006; R. T. Avery, III, a Director, inadvertently filed a late report on Form 4 covering the exercise of common stock purchase warrants in June 2006; Raymond E. Sanders, an executive officer, inadvertently filed a late report on Form 4 covering the exercise of common stock purchase warrants in May 2006; R. Calvert Esleeck, Jr., a Director, inadvertently filed a late report on Form 4 covering the purchase of common stock in August 2006; Michael L. Toalson, a Director, inadvertently filed a late report on Form 4 covering the purchase of common stock in August 2006; Dean T. Patrick, a Director, inadvertently filed two late reports on Form 4 covering the purchase of common stock in November 2006 and the exercise of common stock purchase warrants in June 2006.

CORPORATE GOVERNANCE AND

THE BOARD OF DIRECTORS

General

The business and affairs of the Company are managed under the direction of the Board of Directors in accordance with the Virginia Stock Corporation Act and the Company's Articles of Incorporation and Bylaws. Members of the Board are kept informed of the Company's business through discussions with the President and Chief Executive Officer and other officers, by reviewing materials provided to them and by participating in meetings of the Board of Directors and its committees.

Independence of the Directors

The Board of Directors has determined that the following 8 individuals of its 9 current members are independent as defined by the listing standards of the NASDAQ Stock Market (NASDAQ): R. T. Avery, III, Donald J. Balzer, Jr., Craig D. Bell, William B. Chandler, R. Calvert Esleeck, Jr., Dean T. Patrick, Michael L. Toalson and George R. Whittemore. In reaching this conclusion, the Board of Directors considered that the Company and its subsidiaries conduct business with companies of which certain members of the Board of Directors or members of their immediate families are or were directors or officers.

The Board of Directors considered the following relationship between the Company and one of its directors to determine whether such director was independent under NASDAQ's listing standards:

Donald J. Balzer, Jr. is Chairman of the Board of Balzer & Associates, Inc., an architectural, engineering, surveying and landscape architectural firm. Balzer & Associates is acting as the civil engineer on the construction of a new headquarters building for the Company. The Company estimates that it will pay Balzer & Associates approximately

\$80,000 to provide civil engineering and landscape design services on this project, of which approximately \$15,000 was paid in 2006.

There were no other relationships between the Company and its directors.

Code of Ethics

The Company has a Code of Ethics for directors, officers and all employees of the Company and its subsidiaries, and a Code of Ethics applicable to the Company's Chief Executive Officer, Chief Financial Officer and other principal financial officers. The Code addresses such topics as protection and proper use of Company assets, compliance with applicable laws and regulations, accuracy and preservation of records, accounting and financial reporting and conflicts of interest. A copy of the Code will be provided, without charge, to any shareholder upon written request to the Secretary of the Company, whose address is P.O. Box 330, 1231 Alverser Drive, Midlothian, Virginia 23113.

Board and Committee Meeting Attendance

There were 13 meetings of the Company's Board of Directors in 2006. Each incumbent director attended greater than 75% of the aggregate number of meetings of the Board of Directors and meetings of committees of which the director was a member in 2006.

Committees of the Board

The Company has an Audit Committee and a Compensation Committee. The Company does not have a standing nominating committee.

Audit Committee

The Company's Audit Committee assists the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements and the qualifications, independence and the performance of the internal audit function. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Company. The Board of Directors has adopted a written charter for the Audit Committee. A copy of the charter is attached as Appendix A to this Proxy Statement.

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The members of the Audit Committee are Messrs. Esleeck, Chandler and Toalson, all of whom the Board of Directors, in its business judgment, has determined are independent as defined by NASDAQ's listing standards. The Board of Directors also has determined that all of the members of the Audit Committee have sufficient

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knowledge in financial and auditing matters to serve on the Audit Committee and that Mr. Esleeck qualifies as an audit committee financial expert as defined by SEC regulations.

The Audit Committee met five times in 2006. For additional information regarding the Audit Committee, see [Audit Information](#) [Audit Committee Report](#) later in this Proxy Statement.

Compensation Committee

The Company's Compensation Committee assists the Board of Directors in fulfilling their responsibility to the shareholders to ensure that the Company's officers, key executives, and board members are compensated in accordance with the Company's total compensation objectives and executive compensation policy. The Compensation Committee shall advise and recommend for approval compensation policies, strategies, and pay levels necessary to support organizational objectives. The Board of Directors has adopted a written charter for the Compensation Committee. A copy of the charter is attached as Appendix B to this Proxy Statement.

The members of the Compensation Committee are Messrs. Avery, Chandler, Balzer, Bell and Whittemore, all of whom the Board in its business judgment has determined are independent as defined by NASDAQ's listing standards.

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

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

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

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

The Compensation Committee's compensation philosophy with respect to its executive officers is one of pay for performance. Accordingly, an executive officer's annual compensation consists of a base salary, an annual monetary bonus and stock-based compensation. The annual monetary bonus is utilized to reward our executives

for achieving short-term financial and productivity goals, and stock-based compensation is utilized for achieving long-term financial and productivity goals.

The Compensation Committee met eight times in 2006.

Director Nomination Process

The independent members of the Board of Directors perform the functions of a nominating committee. The Board of Directors does not believe it needs a separate nominating committee because the independent directors (as that term is defined in the NASDAQ listing standards) have the time and resources to perform the function of recommending nominees to the Board of Directors. The Board of Directors has adopted a resolution that provides that it will not nominate any person who has not been recommended for nomination by a majority of the independent directors.

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

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

The ability of the prospective nominee to represent the interests of the shareholders of the Company;

The prospective nominee's standards of integrity, commitment and independence of thought and judgment;

The prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards;

The extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board of Directors; and

The prospective nominee's involvement within the communities the Company serves.

Shareholders entitled to vote for the election of directors may recommend candidates for the independent directors to consider formally in connection with an annual meeting as long as the recommendation is made on or before the last date on which a shareholder may nominate an individual for election to the Board of Directors

under the Company's Bylaws. See *Proposals for 2008 Annual Meeting of Shareholders*.

Under the process used by the Company for selecting new board candidates, the President and Chief Executive Officer and the Board of Directors identify the need to add a new board member with specific qualifications or to fill a vacancy on the board. The Chairman of the Board of Directors will initiate a search, working with staff support and seeking input from board members and senior management, hiring a search firm, if necessary, and considering any candidates recommended by shareholders. An initial slate of candidates that will satisfy criteria and otherwise qualify for membership on the board may be presented to the Board of Directors. A determination is made as to whether board members have relationships with preferred candidates and can initiate contacts. The President and Chief Executive Officer and the Chairman of the Board of Directors interview prospective candidates. The Board of Directors meets to conduct further interviews of prospective candidates, if necessary or appropriate, and to consider and recommend final candidates for approval.

Director Compensation

Each member of the Board of Directors receives no fees for their service as Directors of the Company.

All of the directors of the Company serve as directors of the Bank. As compensation for his service to the Bank, each member of the Board of Directors receives fees as follows:

a retainer fee of \$100 for each meeting of the Board (\$150 for the Chairman of the Board,
an attendance fee of \$200 for each meeting of the Board that he attends (\$300 for the Chairman of the Board), and
an attendance fee of \$100 for each meeting of a committee that he attends (\$150 for the chairman of the committee).

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

During the year, all directors of the Company also served on the Board of Village Bank Mortgage Corporation and received \$100 per meeting for attending such meetings.

In 2005, the Company adopted the Outside Directors Deferral Plan under which non-employee directors of the Bank have the opportunity to invest in Target Date Funds — 1,303 1,303 Equity Index Funds — 2,900 2,900 Total Common and Collective Trusts and Commingled Funds — 4,203 4,203 Short Term Investments: Short Term Investment Fund — 550 550 Short Term Investments* — 416 416 Total Short Term Investments — 966 966 Total Investments, at fair value \$3,812 \$6,595 \$10,407

* Includes approximately \$12 million of cash overdrafts.

4. Nonparticipant-Directed Investments

Information about the net assets at December 31, 2013 and 2012 and the significant components of the changes in net assets for the year ended December 31, 2013 relating to the nonparticipant-directed investments is as follows:

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Honeywell Puerto Rico Savings and Ownership Plan

Notes to Financial Statements

	2013	2012
	(dollars in thousands)	
Honeywell common stock	\$4,206	\$ 2,473
Short-term investments	102	52
	\$4,308	\$ 2,525

	2013	
	<i>(dollars in thousands)</i>	
Changes in net assets:		
Contributions	\$ 908	
Net income	68	
Net appreciation	1,161	
Benefits paid to participants	(302)
Transfers (to)/from participant directed investments	(52)
	\$ 1,783	

5. Related Party Transactions

The Plan's investment in the Master Trust constitutes a related-party transaction because the Company is both the plan sponsor and a party to the Master Trust. The Master Trust is invested in the Company's common stock and the Plan holds notes receivable from participants, both of which qualify as related-party transactions. During the year ended December 31, 2013, the Master Trust's investment in the Company's common stock included purchases of approximately \$245 million, sales of approximately \$514 million, realized gains of approximately \$236 million and dividend income of approximately \$70 million. The Master Trust invests in short term investment funds managed by the Trustee. These investments qualify as party-in-interest transactions.

6. Risks and Uncertainties

The Plan provides for various investment options which may invest in any combination of stocks, fixed income securities, mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statement of changes in net assets available for benefits.

7.Federal Income Taxes

The Plan is designed and intended to be qualified under Section 1165 of the Puerto Rico Internal Revenue Code of 1994, as amended (the “1994 PR Code”), and Section 1081.01(a) of the Internal Revenue Code for a New Puerto Rico, Act No. 1 of January 31, 2011, as amended from time to time (the “2011 PR Code”). The Plan has received a favorable determination letter from the Puerto Rico Treasury Department (the “PR Treasury”) as to its qualified status under the 1994 PR Code. The Plan filed for a favorable determination letter with the PR Treasury under the 2011 PR Code and on July 10, 2013, the Plan received a favorable letter issued by the PR Treasury that it meets the requirements of the 2011 PR Code. The Trust associated with the Plan is intended to be exempt from Puerto Rico income taxation pursuant to the provisions of Section 1165(a) of the 1994 PR Code and Section 1081.01(a) of the 2011 PR Code, and, pursuant to Section 1022(i)(1) of ERISA, for United States income tax purposes, the Plan’s Master Trust is to be considered as an organization as

Honeywell Puerto Rico Savings and Ownership Plan

Notes to Financial Statements

described in Section 401(a) of the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Code") and exempt under Section 501(a) of the U.S. Code. Accordingly, no provision for income taxes has been made.

U.S. GAAP requires plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the 1994 PR Code and the 2011 PR Code. As of December 31, 2013, the Company has analyzed the tax positions by the Plan, and has concluded that as of December 31, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

8. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500 at December 31, 2013 and 2012:

	2013	2012
	(dollars in thousands)	
Net assets available for benefits per the financial statements	\$14,354	\$9,419
Amounts allocated to withdrawing participants	—	(3)
Net assets available for benefits per the Form 5500	\$14,354	\$9,416

The following is a reconciliation of benefits paid to participants per the financial statements to Form 5500 for the year ended December 31, 2013:

	2013
	(dollars in thousands)
Benefits paid to participants per the financial statements	\$ 845
Add: Amounts allocated to withdrawing participants at December 31, 2013	—
Less: Amounts allocated to withdrawing participants at December 31, 2012	(3)
Benefits paid to participants per the Form 5500	\$ 842

9. Subsequent Events

The Company has evaluated subsequent events through the date of issuance of the financial statements. Based on this evaluation, the Company has determined there are no events that require disclosure in or adjustment to the financial statements.

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Schedule H, Line 4(i) – Schedule of Assets (held at end of year)

December 31, 2013

(Dollars in Thousands)

Identity of Issue	Description	Cost	Current Value
*Interest in Honeywell Savings and Ownership Plan Master Trust	Various investments	**	\$ 14,323
*Notes receivable from participants	(Interest rates approximate 4.25%, maturing through March 9, 2035)	**	31
Total			\$ 14,354

* Party-in-interest.

** Interest in Honeywell Savings and Ownership Plan Master Trust includes non-participant directed investments with a market value of \$4,308 and a cost of \$2,077.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan administrator has duly caused this Annual Report to be signed on its behalf by the undersigned hereunto duly authorized.

Honeywell Puerto Rico
Savings and Ownership
Plan

By: /s/Christopher Gregg
Christopher Gregg
Vice President,
Compensation and
Benefits

Date: June 24, 2014