

Village Bank & Trust Financial Corp.
Form 10QSB
November 09, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

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

For the transition period from _____ to _____

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Exact name of small business issuer as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

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

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1231 Alverser Drive, P.O. Box 330, Midlothian, Virginia 23113

(Address of principal executive offices)

804-897-3900

(Issuer's telephone number)

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

2,575,985 shares of common stock, \$4.00 par value, outstanding as of October 22, 2007.

Village Bank and Trust Financial Corp.

Form 10-QSB

TABLE OF CONTENTS

Part I Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets September 30, 2007 (unaudited) and December 31, 2006	3
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Consolidated Statements of Income For the Three and Nine Months Ended September 30, 2007 and 2006 (unaudited)	4
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Consolidated Statements of Stockholders' Equity For the Nine Months Ended September 30, 2007 and 2006 (unaudited)	5
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Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2007 and 2006 (unaudited)	6
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Notes to Condensed Consolidated Financial Statements (unaudited)	7
--	---

Item 2. Management's Discussion and Analysis or Plan of Operation	10
--	----

Item 3. Controls and Procedures	25
--	----

Part II Other Information

Item 1. Legal Proceedings	26
----------------------------------	----

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	26
--	----

Item 3. Defaults Upon Senior Securities	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 5. Other Information	26
Item 6. Exhibits	26
Signatures	27

PART I - FINANCIAL INFORMATION**ITEM 1 FINANCIAL STATEMENTS**

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
September 30, 2007 (Unaudited) and December 31, 2006

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	\$ 5,104,759	\$ 5,702,401
Federal funds sold	7,910,374	11,496,102
Investment securities available for sale	22,992,754	12,787,644
Loans held for sale	2,194,186	3,149,178
Loans		
Outstanding	302,036,792	241,389,621
Allowance for loan losses	(3,240,115)	(2,552,607)
Deferred fees	(475,214)	(338,596)
	298,321,463	238,498,418
Premises and equipment, net	15,450,354	11,676,854
Accrued interest receivable	2,963,754	2,301,264
Goodwill	689,108	689,108
Other assets	6,856,692	4,916,791
	\$ 362,483,444	\$ 291,217,760
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$ 24,168,767	\$ 22,381,251
Interest checking	11,294,296	9,414,544
Money market	22,783,295	17,941,940
Savings	3,644,180	4,106,949
Time deposits of \$100,000 and over	81,792,226	61,883,307
Other time deposits	168,212,070	137,581,890
	311,894,834	253,309,881
FHLB advances	12,000,000	4,000,000
Long-term debt - trust preferred securities	8,764,000	5,155,000
Other borrowings	1,532,242	704,265
Accrued interest payable	543,237	429,986
Other liabilities	1,183,202	1,974,513
Total liabilities	335,917,515	265,573,645
Stockholders' equity		
Preferred stock, \$1 par value - 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$4 par value - 10,000,000 shares authorized; 2,575,985 shares issued and outstanding at September 30, 2007, 2,562,088 shares issued and outstanding at December 31, 2006	10,303,940	10,248,352
Additional paid-in capital	13,704,462	13,588,888
Accumulated other comprehensive income (loss)	(222,689)	(177,759)
Retained earnings	2,780,216	1,984,634
Total stockholders' equity	26,565,929	25,644,115
	\$ 362,483,444	\$ 291,217,760

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest income				
Loans	\$ 6,373,990	\$ 4,800,799	\$ 17,625,793	\$ 12,808,042
Investment securities	225,110	144,872	632,650	220,744
Federal funds sold	199,372	267,834	386,752	522,915
Total interest income	6,798,472	5,213,505	18,645,195	13,551,701
Interest expense				
Deposits	3,481,151	2,353,529	9,371,062	5,687,812
Borrowed funds	250,215	125,795	530,150	391,518
Total interest expense	3,731,366	2,479,324	9,901,212	6,079,330
Net interest income	3,067,106	2,734,181	8,743,983	7,472,371
Provision for loan losses	243,730	118,343	812,009	481,504
Net interest income after provision for loan losses	2,823,376	2,615,838	7,931,974	6,990,867
Noninterest income				
Service charges and fees	188,146	159,054	544,785	421,673
Gain on sale of loans	387,680	372,855	1,160,237	1,131,031
Other	250,421	71,171	265,043	262,971
Total noninterest income	826,247	603,080	1,970,065	1,815,675
Noninterest expense				
Salaries and benefits	1,797,658	1,539,082	5,080,425	4,211,568
Occupancy	230,269	169,528	645,101	484,156
Equipment	153,062	135,303	473,350	353,475
Supplies	90,444	83,014	251,040	236,172
Professional and outside services	256,748	236,779	887,880	752,174
Advertising and marketing	92,767	91,409	259,676	272,872
Other operating expense	636,842	245,515	1,099,139	832,399
Total noninterest expense	3,257,790	2,500,630	8,696,611	7,142,816
Income before income taxes	391,833	718,288	1,205,428	1,663,726
Provision for income taxes	133,224	244,218	409,846	565,668
Net income	\$ 258,609	\$ 474,070	\$ 795,582	\$ 1,098,058
Earnings per share, basic	\$ 0.10	\$ 0.19	\$ 0.31	\$ 0.51
Earnings per share, diluted	\$ 0.10	\$ 0.18	\$ 0.29	\$ 0.48

Village Bank and Trust Financial Corp.
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2007 and 2006

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (loss)	Total
Balance, December 31, 2006	2,562,088	\$10,248,352	\$13,588,888	\$ 1,984,634	\$ (177,759)	\$25,644,115
Issuance of common stock	13,897	55,588	77,646	-	-	133,234
Stock based compensation			37,928			37,928
Net income	-	-	-	795,582	-	795,582
Change in unrealized gain (loss) on securities available for sale	-	-	-	-	(44,930)	(44,930)
Total comprehensive income	-	-	-	-	-	750,652
Balance, September 30, 2007	2,575,985	\$10,303,940	\$13,704,462	\$ 2,780,216	\$ (222,689)	\$26,565,929
Balance, December 31, 2005	1,854,618	\$ 7,418,472	\$ 9,191,567	\$ 585,416	\$ (43,562)	\$17,151,893
Issuance of common stock	707,470	2,829,880	4,387,726	-	-	7,217,606
Net income	-	-	-	1,098,058	-	1,098,058
Change in unrealized gain (loss) on securities available for sale	-	-	-	-	13,420	13,420
Total comprehensive income	-	-	-	-	-	1,111,478
Balance, September 30, 2006	2,562,088	\$10,248,352	\$13,579,293	\$ 1,683,474	\$ (30,142)	\$25,480,977

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006
Cash Flows from Operating Activities		
Net income	\$ 795,582	\$ 1,098,058
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	507,285	339,469
Provision for loan losses	812,009	481,504
Gain on loans sold	(1,160,237)	(1,131,031)
Stock compensation expense	37,928	-
Proceeds from sale of mortgage loans	53,680,381	48,515,325
Origination of mortgage loans for sale	(51,565,152)	(46,951,135)
Amortization of premiums and accretion of discounts on securities, net	30,611	(31,747)
Increase in interest receivable	(662,490)	(1,221,445)
Increase in other assets	(1,985,006)	(2,210,718)
Increase in interest payable	113,251	163,697
Decrease in other liabilities	(791,311)	(387,063)
Net cash used in operating activities	(187,149)	(1,335,086)
Cash Flows from Investing Activities		
Purchases of available for sale securities	(21,943,954)	(24,781,163)
Maturities and calls of available for sale securities	11,630,071	9,953,372
Net increase in loans	(60,635,054)	(46,069,867)
Purchases of premises and equipment	(4,202,448)	(551,476)
Net cash used in investing activities	(75,151,385)	(61,449,134)
Cash Flows from Financing Activities		
Issuance of common stock	133,234	7,217,606
Net increase in deposits	58,584,953	45,186,341
Federal Home Loan Bank borrowings	8,000,000	-
Proceeds from issuance of trust preferred securities	3,609,000	-
Net increase (decrease) in other borrowings	827,977	(174,921)
Net cash provided by financing activities	71,155,164	52,229,026
Net decrease in cash and cash equivalents	(4,183,370)	(10,555,194)
Cash and cash equivalents, beginning of period	17,198,503	25,828,554
Cash and cash equivalents, end of period	\$ 13,015,133	\$ 15,273,360

See accompanying notes to consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (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 three wholly-owned subsidiaries, Village Bank Mortgage Corporation, Village Insurance Agency, Inc., and Village Financial Services Corporation. 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 and nine month periods ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007. 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-KSB for the year ended December 31, 2006 as filed with the Securities and Exchange Commission.

Note 2 - Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 balance sheets and statements of income for the period. Actual results could differ significantly from those estimates.

Note 3 - Earnings per common share

Basic earnings per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. For the three month periods ended September 30, 2007 and 2006, the weighted-average number of common shares totaled 2,574,823 and 2,562,088, respectively. For the nine month periods ended September 30, 2007 and 2006, the weighted-average number of common shares totaled 2,567,662 and 2,170,353, respectively. Diluted earnings per share reflects the potential dilution of securities that could share in the net income of the Company. Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. For the three month periods ended September 30, 2007 and 2006, the weighted-average number of common shares on a fully diluted basis totaled 2,712,714 and 2,672,186, respectively. For the nine month periods ended September 30, 2007 and 2006, the weighted-average number of common shares on a fully diluted basis totaled 2,703,406 and 2,270,895, respectively. There were no options to acquire common stock that were anti-dilutive for the three and nine month periods ended September 30, 2007 and 2006.

Note 4 Stock incentive and stock warrant plans

On March 21, 2000, the Company approved the Organizational Investors Warrant Plan which made available 140,000 warrants for grant to the Company's initial (organizational) investors for certain risks associated with the establishment of the Bank. The warrants have an exercise price of \$10 per share (which approximated the fair value per share of common stock at the issuance date) and expire in April 2008. At September 30, 2007, 140,000 warrants had been issued and 2,500 had been exercised.

Also on March 21, 2000, the Company established the Incentive Plan, a stock incentive plan, which authorizes the issuance of up to 455,000 shares of common stock (increased from 255,000 shares by amendment to the Incentive Plan approved by the Company's shareholders at its 2006 annual meeting on May 23, 2006) to assist the Company in recruiting and retaining key personnel.

Prior to January 1, 2006, the Company applied Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees (APB 25), in accounting for stock based compensation granted to employees and directors pursuant to the stock incentive plan. Under APB 25, compensation expense was determined based upon the fair value of the awards at the grant date consistent with the method under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), and the impact of this expense on net income and earnings per share was disclosed in the notes to financial statements. Effective January 1, 2006, the Company adopted SFAS No. 123 (Revised 2004), Share-Based Payment, issued in December 2004, a revision of SFAS 123, and superseding APB 25, and its related implementation guidance. SFAS 123 (Revised 2004) requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award rather than disclosed in the financial statements.

The aggregate intrinsic value of the options outstanding was \$1,003,000 and \$737,000 at December 31, 2006 and 2005, respectively and \$1,300,000 and \$977,000 at September 30, 2007 and 2006, respectively.

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

	Nine Months Ended September 30, 2007			2006		
	Options	Weighted Average Exercise Price	Fair Value Per Share	Options	Weighted Average Exercise Price	Fair Value Per Share
Options outstanding at beginning of period	251,910	\$ 10.22	\$ 4.67	241,660	\$ 9.80	\$ 4.47
Granted	-	-	-	16,500	12.50	7.35
Forfeited	-	-	-	(250)	11.77	5.29
Exercised						