

Village Bank & Trust Financial Corp.  
Form 10-K  
March 27, 2008

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-KSB**

**ANNUAL REPORT UNDER SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2007**

**Commission file number 0-50765**

**VILLAGE BANK AND TRUST FINANCIAL CORP.**

(Name of small business issuer in its charter)

**Virginia**

(State or other jurisdiction of  
incorporation or organization)

**16-1694602**

(I.R.S. Employer  
Identification No.)

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

(Address of principal executive offices) (Zip Code)

Issuer's telephone number **804-897-3900**

**Securities registered under Section 12(b) of the Exchange Act:**

**Title of each class**

**Name of each exchange  
on which registered**

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Common Stock, \$4.00 par value

The Nasdaq Stock Market

**Securities registered under Section 12(g) of the Exchange Act:**

None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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.

Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

State issuer's revenues for its most recent fiscal year. \$28,332,000.

The aggregate market value of common stock held by non-affiliates of the registrant as of March 14, 2008 was approximately \$25,708,000.

The number of shares of common stock outstanding as of March 14, 2008 was 2,575,985.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be used in conjunction with the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-KSB.



**Village Bank and Trust Financial Corp.**

**Form 10-KSB**

**TABLE OF CONTENTS**

**Part I**

Item 1.	Description of Business	3
Item 2.	Description of Property	13
Item 3.	Legal Proceedings	14
Item 4.	Submission of Matters to a Vote of Security Holders	14

**Part II**

Item 5.	Market for Common Equity and Related Stockholder Matters	15
Item 6.	Management's Discussion and Analysis or Plan of Operation	16
Item 7.	Financial Statements	36
Item 8.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	36
Item 8A.	Controls and Procedures	36
Item 8B.	Other Information	37

**Part III**

Item 9.	Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act	38
Item 10.	Executive Compensation	38
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	38
Item 12.	Certain Relationships and Related Transactions, and Director Independence	38
Item 13.	Exhibits	39
Item 14.	Principal Accountant Fees and Services	40

<b>Signatures</b>		41
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**PART I**

**ITEM 1 DESCRIPTION OF BUSINESS**

**General**

Village Bank and Trust Financial Corp. (the Company) was incorporated in January 2003 and was organized under the laws of the Commonwealth of Virginia as a bank holding company whose activities consist of investment in its wholly-owned subsidiary, Village Bank (the Bank). The Bank opened to the public on December 13, 1999 as a traditional community bank offering deposit and loan services to individuals and businesses in the Richmond, Virginia metropolitan area. During 2003, the Company acquired or formed three wholly owned subsidiaries of the Bank, Village Bank Mortgage Corporation (Village Bank Mortgage), a full service mortgage banking company, Village Insurance Agency, Inc. (Village Insurance), a full service property and casualty insurance agency, and Village Financial Services Corporation (Village Financial Services), a financial services company.

The Company is the holding company of and successor to the Bank. Effective April 30, 2004, the Company acquired all of the outstanding stock of the Bank in a statutory share exchange transaction. In the transaction, the shares of the Bank's common stock were exchanged for shares of the Company's common stock, par value \$4.00 per share (Common Stock), on a one-for-one basis. As a result, the Bank became a wholly-owned subsidiary of the Company, the Company became the holding company for the Bank and the shareholders of the Bank became shareholders of the Company. All references to the Company in this annual report for dates or periods prior to April 30, 2004 are references to the Bank.

We offer a wide range of banking and related financial services, including checking, savings, certificates of deposit and other depository services, and commercial, real estate and consumer loans. We are a community-oriented and locally managed financial institution focusing on providing a high level of responsive and personalized services to our customers, delivered in the context of a strong direct relationship with our customers. We conduct our operations from our main office/corporate headquarters location in Chesterfield County, and we have ten branch offices.

On March 9, 2008, Village Bank and Trust Financial Corp. and Village Bank entered into a definitive merger agreement with River City Bank (River City) whereby River City will merge with and into Village Bank in a transaction valued at approximately \$20.2 million payable in cash and common stock. Under terms of the merger agreement, which was approved by the Board of Directors of both companies, shareholders of River City will be entitled to receive for each share of River City common stock owned, \$11.00 in cash or 1 share of Village Bank and Trust Financial Corp. common stock, subject to proration of 20% cash and 80% common stock if either cash or common stock is oversubscribed. It is anticipated that the transaction will be completed in the third quarter of 2008, pending regulatory approval and approval of the shareholders of both companies. With the addition of River City's three branches, Village Bank will have thirteen branch locations.

**Business Strategy**

Our strategies include the following:

*To be a full service financial services provider enabling us to establish and maintain relationships with our customers.*

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*To attract customers by providing the breadth of products offered by larger banks while maintaining the quick response and personal service of a community bank. We will continue to look for opportunities to expand our products and services. In our first eight*

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years of operation, we have established a diverse product line, including commercial, mortgage and consumer loans as well as a full array of deposit products and services.

*To increase net income and return to shareholders through continued loan growth, while controlling the cost of our deposits and noninterest expenses.*

*To expand our branch network to lower our cost of funds and diversify our loan portfolio with retail, consumer and commercial loans.* We believe that branching will help us attract customers of financial institutions that have consolidated in our region who desire the personal services of a community bank. Our ability to open new branches, however, may be affected by such things as availability of building materials, weather conditions, site approval by local government and regulatory approval.

*To expand our capacity to generate noninterest income through the sale of mortgage loans.* In 2007 our mortgage company hired additional mortgage loan officers which should expand our ability to originate mortgage loans.

*To continue to emphasize commercial banking products and services.* Small-business commercial customers are a source of prime-based loans, fee income from cash management services, and low cost deposits, which we need to fund our growth. We have been able to build a commercial business base because our staff of commercial bankers seeks opportunities to network within the local business community. Significant additional growth in this banking area will depend on expanding our lending staff.

*To target larger commercial customers.* In 2006, we increased our capital by approximately \$7.2 million through the exercise of common stock warrants issued in 2002. This increase in capital increased our legal lending limit to approximately \$4,000,000 in 2006. Increasing our legal lending limit in 2006 helped us accommodate the borrowing needs of larger customers in 2007. Our net loans increased by \$86 million in 2007 compared to a budgeted increase of \$55 million, with the ability to accommodate larger customers playing a significant role in this increase.

Our officers, employees and the directors live and work in our market area. We believe that the existing and future banking market in our community represents an opportunity for locally owned and locally managed community banks. In view of the continuing trend in the financial services industry toward consolidation into larger, sometimes impersonal, statewide, regional and national institutions, the market exists for the personal and customized financial services that an independent, locally owned bank with local decision making can offer. With the flexibility of our smaller size and through an emphasis on relationship banking, including personal attention and service, we can be more responsive to the individual needs of our customers than our larger competitors. As a community oriented and locally managed institution, we make most of our loans in our community and can tailor our services to meet the banking and financial needs of our customers who live and do business in our market.

We provide customers with high quality, responsive and technologically advanced banking services. These services include loans that are priced on a deposit-based relationship, easy access to our decision makers, and quick and innovative action necessary to meet a customer's banking needs.

### **Location and Market Area**

Our strategy is to become the premier financial institution serving the Richmond metropolitan area. We recognized early on that to be successful with this strategy, we needed to grow aggressively, expanding our branch network to reach the most people possible. Initially, we focused our operations in Chesterfield County, Virginia, which, despite its potential for business development and population growth, has been underserved by community banks. Chesterfield's resources are very





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favorable for businesses seeking a profitable and stable environment. The county offers superb commercial and industrial sites, an educated work force, well-designed and developed infrastructure and a competitive tax structure. Chesterfield has been awarded the U.S. Senate Gold Medallion for Productivity and Quality. The county has the highest bond rating from three rating agencies - Standard and Poors, Moody's and Fitch.

Once we established a strong banking presence in the lucrative Chesterfield County market with seven branches, we continued the implementation of our strategy by expanding our franchise into other counties in the Richmond Metropolitan area. In addition to Chesterfield County, we have now opened two branches in Henrico County and one in Powhatan County, both of which along with Chesterfield have seen strong population growth in recent years. According to the U.S. Census Bureau, the 2000 population of Chesterfield County was 259,903, compared to 209,274 in 1990. The number of households in Chesterfield County climbed from 73,441 in 1990 to 93,772 in 2000. The projected figures for 2010 are a population of 319,000 in 117,500 households. The 2000 population of Henrico County was 262,300 compared to 217,849 in 1990. The number of households in 2000 was 108,121 compared to 89,138 in 1990. The projected figures for Henrico County for 2010 are a population of 291,000 in 122,900 households. These population figures place Henrico and Chesterfield, respectively, as the largest two counties in central Virginia and the third and fourth largest counties in the state. Powhatan County, though not as populous as Henrico and Chesterfield, had a population of 22,377 and household units of 7,509 in 2000, and an estimated population of 27,649 in 2006. As Chesterfield County has grown and matured, Powhatan has become the county for growth moving west.

Residential growth in Chesterfield, Henrico and Powhatan Counties remains strong. For the four quarters ended September 30, 2007, Chesterfield County issued 4,169 permits for new single-family homes, Henrico County issued 3,563 and Powhatan County issued 668. Unemployment percentages for Chesterfield, Henrico and Powhatan for the third quarter of 2007 were 2.6%, 2.7% and 2.3%, respectively, well below the national average of 4.7%. Developers continue to locate their planned communities in western Chesterfield County. The Winterpock area of Chesterfield County is expected to see substantial growth over the next six years, with the Deer Run development nearing completion and subdivisions such as Birkdale, Ashbrook, and Bayhill Point continuing their impressive growth. The primary road serving these growing subdivisions is Route 360, and all of these communities are within two miles of our Clover Hill branch. Henrico County has long been a strong bedroom community to Richmond. Many of the metropolitan Richmond area's older upscale housing communities call Henrico home and the western part of Henrico has seen substantial growth in both new business as well as residential communities. The western section of Route 288, the circumferential highway around the Richmond Metropolitan area, was completed in 2004 and significantly improved access to and from Chesterfield County and Henrico County by the surrounding counties.

At December 31, 2007, we had ten full service banking offices, which were staffed by 41 full-time employees. Our senior staff averages more than 25 years of professional or banking experience. Our principal office, which houses our executive officers and loan department, was opened in November 2003 and is located at 1231 Alverser Drive, Midlothian, Virginia 23113. Our main telephone number is (804) 897-3900. Seven of our branch offices are located in Chesterfield County, with two branch offices in Henrico County and one in Powhatan County. Each branch office has been strategically located to be convenient to business and retail customers in the growth sectors of Chesterfield County.

In 2008 we will complete the construction of a new 80,000 square foot headquarters building located in Chesterfield County at the intersection of Route 60 (Midlothian Turnpike) and Route 288. We will occupy approximately half of this space, which will include a retail branch facility, and lease the remainder. We are currently scheduled to move into this facility in July 2008. We have a contract to sell our current principal office located at 1231 Alverser Drive, with closing on this sale to coincide with our move to the new building.

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Other than the branch to be located in the new headquarters building, we have no plans to open more branches in 2008.

Prominent local newspapers, one regional newspaper, and a number of radio and television stations provide diverse media outlets. The broad exposure of television, print media and radio offers several opportunities to explore effective advertising and public relations avenues for the Company.

### **Banking Services**

We receive deposits, make consumer and commercial loans, and provide other services customarily offered by a commercial banking institution, such as business and personal checking and savings accounts, drive-up windows, and 24-hour automated teller machines. We have not applied for permission to establish a trust department and offer trust services. We are not a member of the Federal Reserve System. Our deposits are insured under the Federal Deposit Insurance Act to the limits provided thereunder.

We offer a full range of short-to-medium term commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements) and purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education and personal investments. We also originate fixed and variable rate mortgage loans and real estate construction and acquisition loans. Residential loans originated by our mortgage company are usually sold in the secondary mortgage market.

Our lending activities are subject to a variety of lending limits imposed by federal and state law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the bank), in general, for loans that are not secured by readily marketable or other permissible collateral, we are subject to a loans-to-one borrower limit of an amount equal to 15% of our capital and surplus. We may voluntarily choose to impose a policy limit on loans to a single borrower that is less than the legal lending limit. We are a member of the Community Bankers Bank and may participate out portions of loans when loan amounts exceed our legal lending limits or internal lending policies.

### **Lending Activities**

Our primary focus is on making loans to small businesses and consumers in our local market area. In addition, we also provide a wide range of real estate finance services. Our primary lending activities are principally directed to our market area.

*Loan Portfolio.* The net loan portfolio was \$323,874,000 at December 31, 2007, which compares to \$238,498,000 at December 31, 2006. The Company has enjoyed strong loan growth the last several years reflecting the strong economy in the market we serve. Loans grew by 27% in 2005, 40% in 2006, and 36% in 2007. Our loan customers are generally located in the Richmond metropolitan area. We do not have any subprime loans in our loan portfolio.

*Commercial Business Lending.* Our commercial business lending consists of lines of credit, revolving credit facilities, term loans, equipment loans, stand-by letters of credit and unsecured loans. Commercial loans are written for any business purpose including the financing of plant and equipment, carrying accounts receivable, general working capital, contract administration and acquisition activities. Our client base is diverse, and we do not have a concentration of loans in any specific industry segment. Commercial business loans are generally secured by accounts

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receivable, equipment, inventory and other collateral such as marketable securities, cash value of life insurance, and time deposits. Commercial business loans have a higher degree of risk than residential mortgage loans, but have higher yields. To manage these risks, we generally obtain appropriate collateral and personal guarantees from the borrower's principal owners and monitor the financial condition of business borrowers. The availability of funds for the repayment of commercial

6

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business loans may substantially depend on the success of the business itself. Further, the collateral for commercial business loans may depreciate over time and cannot be appraised with as much precision as residential real estate. All commercial loans we make have recourse under the terms of a promissory note. At December 31, 2007, commercial loans totaled \$23,152,000, or 7.1% of the total loan portfolio.

*Commercial Real Estate Lending.* We finance commercial real estate for our clients and commercial real estate loans represent the largest segment of our loan portfolio. This segment of our loan portfolio has been the largest segment since 2004 due to the significant real estate opportunities in our market area. We generally will finance owner-occupied commercial real estate at an 80% loan-to-value ratio or less. In many cases our loan-to-value ratio is less than 80%, which provides us with a higher level of collateral security. Our underwriting policies and procedures focus on the borrower's ability to repay the loan as well as assessment of the underlying real estate. Risks inherent in managing a commercial real estate loan portfolio relate to sudden or gradual drops in property values as well as changes in the economic climate. We attempt to mitigate those risks by carefully underwriting loans of this type as well as following appropriate loan-to-value standards. Commercial real estate loans (generally owner occupied) at December 31, 2007 were \$140,176,000, or 42.8% of the total loan portfolio.

*Real Estate Construction Lending.* This segment of our loan portfolio is predominately residential in nature and comprised of loans with short duration, meaning maturities of twelve months or less. Residential houses under construction and the underlying land for which the loan was obtained secure the construction loans. Construction lending entails significant risks compared with residential mortgage lending. These risks involve larger loan balances concentrated with single borrowers with funds advanced upon the security of the land and home under construction, which is estimated prior to the completion of the home. Thus it is more difficult to evaluate accurately the total loan funds required to complete a project and related loan-to-value ratios. To mitigate these risks we generally limit loan amounts to 80% of appraised values on pre-sold homes and 75% on speculative homes, and obtain first lien positions on the property taken as security. Additionally, we offer real estate construction financing to individuals who have demonstrated the ability to obtain a permanent loan. At December 31, 2007, construction loans totaled \$106,556,000, or 32.5% of the total loan portfolio.

*Residential Mortgage Lending.* We make permanent residential mortgage loans for inclusion in the loan portfolio. We seek to retain in our portfolio variable rate loans secured by one-to-four-family residences. However, the majority of permanent residential loans are made by the Bank's subsidiary, Village Bank Mortgage, which sells them to investors in the secondary mortgage market on a pre-sold basis. Given the low fixed rate residential loan market in recent years, this allows us to offer this service to our customers without retaining a significant low rate residential loan portfolio which would be detrimental to earnings as interest rates increase. We originate both conforming and non-conforming single-family loans.

Before we make a loan we evaluate both the borrower's ability to make principal and interest payments and the value of the property that will secure the loan. We make first mortgage loans in amounts up to 95% of the appraised value of the underlying real estate. We retain some second mortgage loans secured by property in our market area, as long as the loan-to-value ratio combined with the first mortgage does not exceed 90%. For conventional loans in excess of 80% loan-to-value, private mortgage insurance is required.

Our current one-to-four-family residential adjustable rate mortgage loans have interest rates that adjust every 1, 3 and 5 years, generally in accordance with the rates on comparable U.S. Treasury bills. Our adjustable rate mortgage loans generally limit interest rate increases to 2% each rate adjustment period and have an established ceiling rate at the time the loans are made of up to 6% over the original interest rate. There are risks resulting from increased costs to a borrower as a result of the periodic repricing mechanisms of these loans. Despite the benefits of adjustable rate mortgage loans to our asset/liability management, they pose additional risks, primarily because as



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interest rates rise, the underlying payments by the borrowers rise, increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. At December 31, 2007, \$51,281,000, or 15.6% of our loan portfolio, consisted of residential mortgage loans.

*Consumer Installment Lending.* We offer various types of secured and unsecured consumer loans. We make consumer loans primarily for personal, family or household purposes as a convenience to our customer base since these loans are not the primary focus of our lending activities. Our general guideline is that a consumer's total debt service should not exceed 40% of the consumer's gross income. Our underwriting standards for consumer loans include making a determination of the applicant's payment history on other debts and an assessment of his or her ability to meet existing obligations and payments on the proposed loan. The stability of an applicant's monthly income may be determined by verification of gross monthly income from primary employment and additionally from any verifiable secondary income. Consumer loans totaled \$6,611,000 at December 31, 2007, which was 2.0% of the total loan portfolio.

*Loan Commitments and Contingent Liabilities.* In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities which are disclosed in the footnotes of our annual financial statements, including commitments to extend credit. At December 31, 2007, undisbursed credit lines, standby letters of credit and commitments to extend credit totaled \$115,648,000.

*Credit Policies and Administration.* We have adopted a comprehensive lending policy, which includes stringent underwriting standards for all types of loans. Our lending staff follows pricing guidelines established periodically by our management team. In an effort to manage risk, all credit decisions in excess of the officers' lending authority must be approved prior to funding by a management loan committee and/or a board of directors-level loan committee. Any loans above \$2,000,000 require full board of directors' approval. Management believes that it employs experienced lending officers, secures appropriate collateral and carefully monitors the financial conditions of our borrowers and the concentration of such loans in the portfolio.

In addition to the normal repayment risks, all loans in our portfolio are subject to the state of the economy and the related effects on the borrower and/or the real estate market. Generally, longer-term loans have periodic interest rate adjustments and/or call provisions. Our senior management monitors the loan portfolio closely to ensure that past due loans are minimized and that potential problem loans are swiftly dealt with. In addition to the internal business processes employed in the credit administration area, the Company utilizes an outside consulting firm to review the loan portfolio. A detailed annual review is performed, with an interim update occurring at least once a year. Results of the report are used to validate our internal loan ratings and to provide independent commentary on specific loans and loan administration activities.

*Lending Limit.* As of December 31, 2007, our legal lending limit for loans to one borrower was approximately \$4,900,000. As part of our risk management strategy, we attempt to participate a portion of our larger loans to other financial institutions. This allows us to maintain customer relationships yet reduce credit exposure and stay within our legal lending limit.

### **Investments and Funding**

We balance our liquidity needs based on loan and deposit growth via the investment portfolio, purchased federal funds, and Federal Home Loan Bank advances. It is our goal to provide adequate liquidity to support our loan growth. Should we have excess liquidity, investments are used to generate positive earnings. In the event deposit growth does not fully support our loan growth, a combination of investment sales, federal funds and Federal Home Loan Bank advances will be used to augment our funding position.

Our investment portfolio is actively monitored and is classified as available for sale. Under such a





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classification, investment instruments may be sold as deemed appropriate by management. On a monthly basis, the investment portfolio is marked to market via equity as required by SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. Additionally, we use the investment portfolio to balance our asset and liability position. We will invest in fixed rate or floating rate instruments as necessary to reduce our interest rate risk exposure.

For securities classified as available-for-sale securities, we will evaluate whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in earnings. There were no securities at December 31, 2007 where a decline in market value was considered other than temporary.

### **Competition**

We encounter strong competition from other local commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial institutions. A number of these competitors are well-established. Competition for loans is keen, and pricing is important. Most of our competitors have substantially greater resources and higher lending limits than ours and offer certain services, such as extensive and established branch networks and trust services, which we do not provide at the present time. Deposit competition also is strong, and we may have to pay higher interest rates to attract deposits. Nationwide banking institutions and their branches have increased competition in our markets, and federal legislation adopted in 1999 allows non-banking companies, such as insurance and investment firms, to establish or acquire banks.

The greater Richmond metropolitan market has experienced several significant mergers or acquisitions involving all four regional banks formerly headquartered in central Virginia over the past fifteen years. Additionally, other larger banks from outside Virginia have acquired local banks. We believe that the Company can capitalize on the recent merger activity and attract customers from those who are dissatisfied with the recently acquired banks.

At June 30, 2007, the latest date such information is available from the FDIC, the Bank's deposit market share in Chesterfield County was 7.17%.

### **Effect of Adverse Economic Conditions**

Our business may be adversely affected by periods of economic slowdown or recession which may be accompanied by decreased demand for consumer credit and declining real estate values. Any material decline in real estate values could have a significant adverse effect on the operations of the Company as 90.9% of our loan portfolio is collateralized by real estate. Declines in real estate values can reduce projected cash flows from commercial properties and the ability of borrowers to use home equity to support borrowings and increase the loan-to-value ratios of loans previously made by us, thereby weakening collateral coverage and increasing the possibility of a loss in the event of default. In addition, delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions.

We anticipate the majority of our depositors will be located in and doing business in the local market and we will lend a substantial portion of our capital and deposits to individuals and businesses in this market area. Any factors adversely affecting the economy of this market could, in turn, adversely affect our performance.

**Regulation**

We are subject to regulations of certain federal and state agencies and receive periodic examinations by those regulatory authorities. As a consequence of the extensive regulation of

9

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commercial banking activities, our business is susceptible to being affected by state and federal legislation and regulations.

**General.** The discussion below is only a summary of the principal laws and regulations that comprise the regulatory framework applicable to us. The descriptions of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, do not purport to be complete and are qualified in their entirety by reference to applicable laws and regulations. In recent years, regulatory compliance by financial institutions such as ours has placed a significant burden on us both in costs and employee time commitment.

**Bank Holding Company.** The Company is a bank holding company under the Federal Bank Holding Company Act of 1956, as amended, and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and Virginia State Corporation Commission (SCC). As a bank holding company, the Company is required to furnish to the Federal Reserve Board an annual report of its operations at the end of each fiscal year and to furnish such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board, FDIC and SCC also may conduct examinations of the Company and/or its subsidiary bank.

The Gramm-Leach-Bliley Act of 1999 (the Act) draws new lines between the types of activities that are financial in nature and permitted for banking organizations, and those activities that are commercial in nature and not permitted. The Act imposes Community Reinvestment requirements on financial service organizations that seek to qualify for the expanded powers to engage in broader financial activities and affiliations with financial companies that are permitted.

The Act allows a financial holding company to own banks, insurance companies and securities firms. A financial holding company is authorized to engage in any activity that is financial in nature, incidental to an activity that is financial in nature, or is a complimentary activity. These activities may include insurance, securities transactions, and traditional banking activities. The Act establishes a consultative and cooperative procedure between the Federal Reserve and the Secretary of the Treasury for purposes of determination as to the scope of activities permitted by the Act.

A bank holding company must satisfy special criteria to qualify for the expanded powers authorized by the Act, including the maintenance of a well-capitalized and well-managed status for all affiliate banks and a satisfactory community reinvestment rating.

**Bank Regulation.** As a Virginia state-chartered FDIC bank that is not a member of the Federal Reserve System, the Bank is subject to regulation, supervision and examination by the SCC's Bureau of Financial Institutions (BFI). The Bank is also subject to regulation, supervision and examination by the FDIC. Federal law also governs the activities in which we may engage, the investments we may make and the aggregate amount of loans that may be granted to one borrower. Various consumer and compliance laws and regulations also affect our operations. Earnings are affected by general economic conditions, management policies and the legislative and governmental actions of various regulatory authorities, including those referred to above. The following description summarizes some of the laws to which we are subject. The BFI and the FDIC will conduct regular examinations, reviewing such matters as the overall safety and soundness of the institution, the adequacy of loan loss reserves, quality of loans and investments, management practices, compliance with laws, and other aspects of their operations. In addition to these regular examinations, we must furnish the FDIC with periodic reports containing a full and accurate statement of our affairs. Supervision, regulation and examination of banks by these agencies are intended primarily for the protection of depositors rather than shareholders.

**Insurance of Accounts, Assessments and Regulation by the FDIC.** Our deposits are insured by the FDIC up to the limits set forth under applicable law, currently \$100,000. Deposits are subject to the deposit insurance assessments of the Bank Insurance Fund (BIF) of the FDIC. The FDIC is authorized to prohibit any BIF-insured institution from engaging in any activity that the FDIC



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determines by regulation or order to pose a serious threat to the respective insurance fund. Also, the FDIC may initiate enforcement actions against banks, after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may terminate the deposit insurance of any depository institution if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. We are aware of no existing circumstances that could result in termination of our deposit insurance.

**Capital.** The FDIC has issued risk-based and leverage capital guidelines applicable to banking organizations they supervise. Under the risk-based capital requirements, we are generally required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit), of 8%. At least half of the total capital is to be composed of common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles ( Tier 1 capital ). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance ( Tier 2 capital and, together with Tier 1 capital, total capital ). In addition, each of the Federal bank regulatory agencies has established minimum leverage capital ratio requirements for banking organizations. These requirements provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets equal to 4% for banks and bank holding companies that meet certain specified criteria. All other banks and bank holding companies will generally be required to maintain a leverage ratio of at least 100 to 200 basis points above the stated minimum. The risk-based capital standards of the FDIC explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a bank's capital adequacy.

**Other Safety and Soundness Regulations.** There are a number of obligations and restrictions imposed on depository institutions by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event the depository institution becomes in danger of default or is in default. The Federal banking agencies also have broad powers under current Federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized, as defined by the law. Federal regulatory authorities also have broad enforcement powers over us, including the power to impose fines and other civil and criminal penalties, and to appoint a receiver in order to conserve the assets of any such institution for the benefit of depositors and other creditors. Village Bank is currently classified as an adequately capitalized financial institution.

**Loans-to-One Borrower.** Under applicable laws and regulations the amount of loans and extensions of credit which may be extended by a bank to any one borrower, including related entities, generally may not exceed 15% of the unimpaired capital and unimpaired surplus of the institution. Loans in an amount equal to an additional 10% of unimpaired capital and unimpaired surplus also may be made to a borrower if the loans are fully secured by readily marketable securities. An institution's unimpaired capital and unimpaired surplus includes, among other things, the amount of its core capital and supplementary capital included in its total capital under Federal regulations.

**Community Reinvestment.** The requirements of the Community Reinvestment Act ( CRA ) are

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applicable to the Company. The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. A financial institution's efforts in meeting community credit needs currently are evaluated as part of the examination process pursuant to 12 assessment factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility.

**Economic and Monetary Policies.** Our operations are affected not only by general economic conditions, but also by the economic and monetary policies of various regulatory authorities. In particular, the Federal Reserve regulates money, credit and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for time and savings deposits. Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

### Employees

As of December 31, 2007, the Company and its subsidiaries had a total of 123 full-time employees and 7 part-time employees. None of the Company's employees are covered by a collective bargaining agreement. The Company considers its relations with its employees to be good.

### Dependence on Key Personnel

Our growth and development to date have been largely dependent upon the services of Thomas W. Winfree, President and Chief Executive Officer, Jack M. Robeson, Senior Vice President/Lending, Raymond E. Sanders, Senior Vice President and Chief Operations Officer, Dennis J. Falk, Senior Vice President/Lending and Administration and C. Harril Whitehurst, Jr., Senior Vice President and Chief Financial Officer. The loss of the services of Messrs. Winfree, Robeson, Sanders, Falk or Whitehurst for any reason could have a material adverse effect on the Company.

### Control by Certain Shareholders

The Company has one shareholder who owns 9.64% of its outstanding Common Stock. As a group, the Board of Directors and the Company's Executive Officers control 20.91% of the outstanding Common Stock of the Company as of March 1, 2008. Accordingly, such persons, if they were to act in concert, would not have majority control of the Bank and would not have the ability to approve certain fundamental corporate transactions or the election of the Board of Directors.

**ITEM 2 DESCRIPTION OF PROPERTY**

Our executive and administrative offices are located at 1231 Alverser Drive in Chesterfield County. We opened this office in November 2003. This office also houses our loan department. The two-story 8,000 square foot building, which has been substantially renovated, is owned by the bank. The cost of this building, including renovations and land, amounted to \$1,205,000.

Our largest deposit branch office is located at 13531 Midlothian Turnpike in Chesterfield County. This was our initial office location and also housed our executive and administrative offices until the opening of the operations center on Alverser Drive. The building, which has been substantially renovated, is a two-story brick structure with a basement, consisting of approximately 3,500 square feet. It has five teller stations, three drive-up lanes and a drive-up ATM and night depository. Prior to December 31, 2002, this building was leased. It was purchased from our landlord on December 31, 2002 for \$1,713,000.

We opened our second branch office at 6736 Southshore Drive at Route 360 (Hull Street Road) in Chesterfield County, in July 2002. The building is a one-story brick structure consisting of approximately 2,400 square feet. The branch location was purchased in June 2002 for \$1,384,000. It has four teller stations, two drive-up lanes and a drive-up ATM and night depository.

We opened a third branch location at 4221 West Hundred Road in Chesterfield County, in April 2003. The building is a one-story brick structure with a basement consisting of approximately 1,800 square feet. It has four teller stations, one drive-up lane and a drive-up ATM and night depository. Initially this branch was leased for a term of five years commencing April 1, 2003 and ending March 31, 2008 for total lease payments of approximately \$186,000 over the life of the lease. In December 2007, we purchased this branch for \$450,000 and plan on spending another \$100,000 in renovations in 2008.

We opened our fourth branch at 13521 Waterford Place in Chesterfield County, in October 2004 utilizing a mobile manufactured building which we purchased in April 2004 for \$46,000. The permanent branch building, a one-story brick structure consisting of approximately 2,400 square feet, was completed in June 2005 and cost \$955,000. It has three teller stations, two drive-up lanes and a drive-up ATM and night depository.

Our fifth branch, located at 6551 Centralia Road in Chesterfield County, opened in November 2005. The building is a one-story brick structure consisting of approximately 2,900 square feet. The branch is being leased for a term of eight years commencing November 19, 2005 and ending November 30, 2013 for total lease payments of approximately \$672,000 over the life of the lease. It has five teller stations, two drive-up lanes and a drive-up ATM and night depository.

In March 2006 we opened our sixth office at 11450 Robious Road in Chesterfield County. We initially opened this branch with our mobile manufactured building and subsequently constructed a 2,400 square foot building that cost \$1,860,000 and is owned by the Bank. This branch has three teller stations, two drive-up lanes, and a drive-up ATM and night depository.

Our seventh branch, located at 1650 Willow Lawn Drive in Henrico County, opened in May 2006. This was our first retail branch location outside Chesterfield County. The building is a three story brick structure. We lease the first floor consisting of approximately 3,000 square feet. The term of the lease is nine years commencing March 1, 2006 and ending February 28, 2016 with total lease payments of \$842,000 over the life of the lease. It has four teller stations, three drive thru lanes, a drive-up ATM and night depository.





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Our eighth branch, located at 1793 South Creek One in Powhatan County, opened in December 2006. This was our first branch located in Powhatan County. This 2,400 square foot structure cost \$1,452,000 and has three teller stations, two drive-up lanes, a drive-up ATM and night depository. In addition to three teller stations, the building has offices to support retail, commercial and mortgage company staff.

Our ninth branch, located at 1120 Huguenot Road, opened in June 2007. This branch was a relocation of the retail branch facility that was located in the administrative offices on Alverser Drive. The two story structure consists of 3,514 square feet with offices on both the first and second floors. Village Bank purchased the land and improvements for \$786,300 and spent \$175,000 remodeling the interior and exterior of the building. There is also a land lease on .56 acres used for additional parking. The annual lease expense on the land lease is \$33,275.

Our tenth branch, located at 1401 Santa Rosa Road, opened in August 2007 and is our second branch located in Henrico County. This 2,400 square foot structure cost \$1,370,000 and has three teller stations, two drive-up lanes, a drive-up ATM and night depository. In addition to three teller stations, the building has offices to support retail, commercial and mortgage company staff.

In 2008 we will complete the construction of a new 80,000 square foot headquarters building located in Chesterfield County at the intersection of Route 60 (Midlothian Turnpike) and Route 288. We will occupy approximately half of this space, which will include a retail branch facility, and lease the remainder. We are currently scheduled to move into this facility in July 2008. The cost of this building, including land, will be approximately \$13.5 million. Through December 31, 2007, we have acquired the land for \$1.7 million and made progress payments on the construction of the building of \$5 million. We are currently negotiating a contract to sell our current principal office located at 1231 Alverser Drive, with closing on this sale to coincide with our move to the new building.

Our properties are maintained in good operating condition and are suitable and adequate for our operational needs.

We have received and reviewed the written disclosures and the letter from PricewaterhouseCoopers LLP, required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and have discussed with the registered public accounting firm their independence.

Based on the reviews and discussions referred to above, we recommended to the Company's Board of Directors that the Company's Annual Report on Form 10-K for the year ended December 31, 2015 be filed with the Securities and Exchange Commission.

During 2015, directors Neil G. Budnick, Gerald S. Hobbs, Christine Putur, Kalpana Raina and Donald C. Waite III served as members of the Audit Committee.

SUBMITTED BY THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS

THE AUDIT COMMITTEE  
Mr. Neil G. Budnick (Chairman)  
Mr. Gerald S. Hobbs  
Ms. Christine Putur  
Ms. Kalpana Raina  
Mr. Donald C. Waite III

14

Table of Contents

**PROPOSAL NO. 3  
NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION**

We are including in this Proxy Statement a separate resolution subject to stockholder vote to approve, in a non-binding advisory vote, the compensation paid to our Named Executive Officers as disclosed in this Proxy Statement pursuant to the rules of the SEC on pages 19 to 34. The language of the resolution is as follows:

**RESOLVED, THAT THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE RULES OF THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE COMPENSATION DISCUSSION AND ANALYSIS, COMPENSATION TABLES AND ANY RELATED NARRATIVE DISCUSSION, IS HEREBY APPROVED.**

This item is commonly referred to as a "say-on-pay" proposal. At our 2015 Annual Meeting of Stockholders, our stockholders approved the say-on-pay proposal by a vote of 98% in favor to 2% against.

In considering your vote, you may wish to review the information on the Company's compensation policies and decisions regarding the Named Executive Officers presented in the Compensation Discussion and Analysis on pages 20 to 30, as well as the discussion regarding the Compensation Committee beginning on page 7.

In particular, stockholders should note the following:

As noted in the Compensation Discussion and Analysis, the Company believes management compensation should be competitive with market practices, provide rewards based on the attainment of Company objectives and tightly align management with the interests of stockholders.

At the discretion of the Compensation Committee, the material elements of the compensation system created for the Company's Named Executive Officers include a mix of base salary, annual performance-based cash incentive and an equity component.

The Company believes that the compensation provided to the Named Executive Officers is competitive with market norms, is predicated on "pay for performance" and is tightly aligned with the interests of the Company's stockholders.

In particular, the compensation we paid the Named Executive Officers for 2015 was in line with the favorable financial results achieved by our management team.

Because this vote is advisory and non-binding on the Board of Directors, the Board and the Compensation Committee will review and consider the voting results, as well as other communications from stockholders relating to our compensation practices, and take them into account in future determinations concerning our executive compensation programs.

Approval of this proposal requires the affirmative vote of a majority of the votes cast by holders of shares of ISG common stock represented in person or by proxy and entitled to vote at the Annual Meeting. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE COMPENSATION PAID TO OUR NAMED EXECUTIVE OFFICERS.**

Table of Contents**MANAGEMENT**

The following table sets forth certain information concerning each of our executive officers and directors:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Michael P. Connors	60	Chairman of the Board and Chief Executive Officer
David E. Berger	59	Executive Vice President and Chief Financial Officer
R. James Cravens	52	Executive Vice President and Chief Human Resources & Communications Officer
Neil G. Budnick	62	Director
Gerald S. Hobbs	74	Director
Christine Putur	54	Director
Kalpana Raina	60	Director
Donald C. Waite III	74	Director

**Management**

**Michael P. Connors** has served as our Chairman of the Board and Chief Executive Officer since our inception. Mr. Connors also served as our Secretary and Treasurer from the date of our inception until December 2006. Mr. Connors served as Chairman and CEO of VNU's Media Measurement and Information (MMI) Group from its creation in 2001 until his resignation in 2005. VNU is a leading global information and media company. Mr. Connors was instrumental in creating the MMI Group, which comprises VNU's media information, entertainment, software and internet businesses, including Nielsen Media Research, Nielsen Entertainment and NetRatings. In addition to leading the MMI Group, Mr. Connors served as chairman of VNU World Directories from 2003 to 2004, which included VNU's Yellow Pages and directory businesses operating in seven countries. Mr. Connors also served as a member of the VNU Executive Board. Prior to joining VNU, Mr. Connors was Vice Chairman of ACNielsen Corporation, one of the world's largest marketing information services companies, commencing November 1996. Prior to that, as Senior Vice President of The Dun & Bradstreet Corporation (D&B), Mr. Connors played a key role in the breakup of D&B into three separate, publicly traded companies, including ACNielsen. Mr. Connors currently serves as a director of both Eastman Chemical Company and Chubb, Ltd.

**David E. Berger** has served as our Executive Vice President and Chief Financial Officer since October 2009. Prior to joining ISG, Mr. Berger was Senior Vice President, Corporate Controller and Investor Relations with The Nielsen Company where he spent more than eight years. Prior to joining Nielsen in 2001 he had been employed for almost ten years at Simon & Schuster and Viacom in varying senior management capacities leaving as Senior Vice President, Finance and Development. Prior to his tenure at Simon & Schuster/Viacom, Mr. Berger worked at American National Can Company where he was Chief Financial Officer of one of its largest divisions. Mr. Berger started his professional career with the public accounting firm of Touche Ross and Company. Mr. Berger is a graduate of the Wharton School of the University of Pennsylvania and earned his Masters of Business Administration from the University of Chicago.

**R. James Cravens** has served as our Executive Vice President and Chief Human Resources and Communications Officer since January 2014. Previously, Mr. Cravens was most recently Executive Vice President, Global Human Resources of Vision Critical, a global software and services firm, where he spent almost two years. Prior to Vision Critical, Mr. Cravens was Senior Vice President, Human Resources North America with Synovate, a global research services firm, where he spent almost one year prior to its sale to Ipsos. Prior to Synovate, from 2004-2010, Mr. Cravens was Global Head of Human Resources and Corporate Communications with Kinetic Concepts, Inc., a medical technology

Table of Contents

firm. Mr. Cravens is a graduate of Kenyon College, the University of Chicago Law School and Stanford University's Inter-University Center for Advanced Japanese Language Studies in Yokohama, Japan.

**Directors**

**Neil G. Budnick** has served as our Director since June 2011. Mr. Budnick is currently the Managing Director at Channel Rock Partners, a management consulting firm that provides business strategy and opportunity analysis, operations improvement and risk management for corporations. Until April 2007, Mr. Budnick was President of MBIA Insurance Corporation, a major financial services company. During his 23 years at MBIA, Mr. Budnick held increasingly important positions including: Vice Chairman; Chief Financial Officer; President, Public and Corporate Finance Division; and Senior Vice President, Head of Municipal and Structure Finance. Earlier in his career, Mr. Budnick was also Vice President of the Public Finance Department of Standard & Poor's Corporation. He is a Board Member and Chair of the Audit Committee of RHR International, a management firm that specializes in executive development. Following an appointment by the Governor of Connecticut in 2012, he served from 2012-2013 as Chairman of the Investment Advisory Council (IAC), the state body responsible for working with the State Treasurer in overseeing the investments of the Connecticut Retirement Plans and Trust Funds. Mr. Budnick holds a B.A. in Political Science from Boston College and an M.P.A. in Public Administration from the University of Colorado.

**Gerald S. Hobbs** has served as our Director since January 2008. Mr. Hobbs is a managing director and an operating partner at BV Investments, LLC. Previously, Mr. Hobbs was the Chairman and CEO of VNU, Inc., now The Nielsen Company, and Vice-Chairman of the Executive Board of VNU N.V. until his retirement in April 2003. Mr. Hobbs has served as Chairman, and Director of the American Business Media, BPA International and the Advertising Council, Inc. He recently retired from The Nielsen Company and BNA, Inc. boards of directors. He was a member of the Audit Committee at both companies.

**Christine Putur** has served as our Director since March 2014. Ms. Putur is the Chief Information Officer of Coach, Inc., a leading New York design house of modern luxury accessories. Previously, Ms. Putur was a senior executive for Staples, Inc., a leading office supply retailer. She joined Staples in 1999 and held a variety of leadership positions, most recently as the Senior Vice President and Chief Information Officer. Prior to that, she worked at Digital Equipment Corporation, a vendor of computer systems, for 15 years and participated in its merger with Compaq Computer Corporation, a developer and seller of computers and related products and services. Ms. Putur holds a B.A. in Administrative Science and Math from Colby College and a M.S. in Management Information Systems from the Boston University Graduate School of Management.

**Kalpana Raina** has served as our Director since August 2009. Ms. Raina is the managing partner of 252 Solutions, LLC, an advisory firm that specializes in strategic development and implementation. Previously, Ms. Raina was a senior executive with The Bank of New York, a global financial services company. She joined the Bank in 1989 and held a variety of leadership positions, most recently Executive Vice President and Head of European Country Management and Corporate Banking. Prior to that, she served in Mumbai, India as the bank's Executive Vice President, International. During her eighteen-year career with the bank she had responsibility for clients in the Media, Telecommunications, Healthcare, Retailing, Hotels and Leisure and Financial services industries in Asia, Europe, and the United States. Ms. Raina also is a director of John Wiley & Son (NYSE: JWa and JWb), where she chairs the Compensation Committee, and Yellow Pages Limited (TSX: YLO). Until October 2013, Ms. Raina was also a director of RealNetworks (NASDAQ: RNWK), where she served on the Audit Committee and the Nominating and Corporate Governance Committee. She is a member of Women Corporate Directors and The National Association of Corporate Directors and a past member of The U.S.-India Business Council.

Table of Contents

**Donald C. Waite III** has served as our Director since January 2008. Mr. Waite is an adjunct professor at Columbia Graduate School of Business. Mr. Waite retired from McKinsey & Company, the international management consulting firm, in February 2002 after 36 years of service. From 1996 to 2002, he was one of three members of the Firm's Office of the Managing Director, and Chairman of the Firm's Investment Committee and Compensation Committee. Mr. Waite is a Director Emeritus of McKinsey & Company and sits on the McKinsey Investment Committee. Mr. Waite sits on the Board of Overseers of the Columbia Graduate School of Business and serves on the Board of Directors of The Guardian Life Insurance Company of America, where he is Lead Director and member of the Human Resources & Governance Committee and Products & Distribution Committee. Also, in the prior five years, Mr. Waite served as a member of the Board of Directors of Presstek, Inc.

Table of Contents

**EXECUTIVE COMPENSATION**

**Background**

This discussion addresses compensation as it relates to ISG's three named executive officers for the fiscal year ending December 31, 2015: Michael P. Connors, Chairman and Chief Executive Officer; David E. Berger, Executive Vice President and Chief Financial Officer; and R. James Cravens, Executive Vice President and Chief Human Resources & Communications Officer (the "Named Executive Officers").

**Oversight of Compensation**

The Compensation Committee is responsible for overseeing the compensation and employee benefit plans and practices of the Company. The Compensation Committee is comprised entirely of independent directors. The Compensation Committee approves all executive compensation arrangements. The Compensation Committee charter sets forth the purpose of and other matters pertaining to the Compensation Committee. See pages 7 to 8 for further details regarding the duties and responsibilities of the Compensation Committee.

**Use of Third Party Advisors**

Pursuant to its charter, the Compensation Committee has the authority to retain, as needed, any independent counsel, compensation and benefits consultants and other outside experts or advisors as the Compensation Committee believes to be necessary or appropriate. The Compensation Committee has retained the firm of Steven Hall & Partners ("SH&P") as its independent compensation consultant to report and advise on matters related to executive and director compensation and related corporate governance concerns. The Compensation Committee has assessed the independence of SH&P pursuant to the SEC's and NASDAQ's rules and concluded that the work SH&P has performed does not raise any conflict of interest.

SH&P was engaged by and reports directly to the Compensation Committee. The Compensation Committee is responsible for approving payments to the consultant, and the Compensation Committee is solely responsible for engagement and termination of the consultant. While conducting assignments, the Compensation Committee anticipates that SH&P will interact with the Company's management when appropriate to gather internal perspectives and relevant company and compensation data. In addition, SH&P may seek feedback from the Compensation Committee Chairman, other members of the Compensation Committee or the Board of Directors, or the Chairman of the Board of Directors in developing recommendations for the Compensation Committee's consideration.

The Compensation Committee calls upon SH&P, as appropriate, to attend Compensation Committee meetings, meet with the Compensation Committee without management present and provide third-party data, advice and expertise on proposed executive compensation levels, programs and plan designs and implementation, and on other matters within the scope of the Compensation Committee's responsibilities. The Compensation Committee may also ask SH&P to review and provide advice relating to proposals prepared by management, including evaluating the consistency of such proposals with the Compensation Committee's compensation philosophy and in comparison to programs at other companies, to provide information and advice regarding compensation of our non-employee directors, and to review disclosures relating to executive and director compensation.

SH&P provides only consulting services relating to executive and director compensation to us, and does not provide other services such as employee benefits administration or actuarial services. SH&P interacts from time to time with members of our management team in carrying out its assignments.

Table of Contents

**Role of Management in Compensation Decisions**

In determining compensation for the executive officers, the Compensation Committee may consult with the Company's executive officers at various times during the year to provide the Compensation Committee with information with which the Compensation Committee performs its own assessment of the individual performance of each executive officer. The Compensation Committee may also request input from the Chief Executive Officer, other members of the Board and the other committees of the Board as part of the Compensation Committee's evaluation of the executive officers and other key Company employees and their achievement of performance objectives. At the Compensation Committee's request, the Chief Executive Officer will review and discuss the performance and compensation of the Company's other Named Executive Officers. Executive officers, including the Chief Executive Officer, are not present for the discussions or discretionary decisions regarding their own compensation. The Compensation Committee is assisted in the administration of its decisions by the Company's Chief Human Resources Officer. Notwithstanding this input, the Compensation Committee retains full discretion to approve the compensation of the Company's executive officers.

**COMPENSATION DISCUSSION AND ANALYSIS**

**Overview of 2015 Performance**

ISG made great progress in 2015 and improved in a number of areas over 2014. Highlights include:

Revenues of \$209.2 million, up 8% versus 2014 excluding the impact of foreign currency exchange.

Increased number of clients by 11% versus 2014.

Adjusted EBITDA of \$22.6 million, up 11% versus 2014 excluding the impact of foreign currency exchange.

Repurchased \$3.4 million in ISG stock and paid first-ever special dividend of \$5.2 million in January 2015.

ISG 3-year total shareholder return (for 2013-2015) of 226% compared to the NASDAQ Composite of 72%, Russell 2000 of 39% and S&P 500 of 53%.

Amended our credit agreement extending the maturity by two years on favorable terms.

Expanded our research capabilities with the acquisition of Saugatuck Technology.

Launched Digital Advisory Services.

Added five research analysts following ISG stock, bringing the total coverage to eight research analysts.

The Compensation Committee recognized that this strong performance was a result of management's effective execution of our business strategy. The Compensation Committee's determinations regarding compensation of our Named Executive Officers for 2015 reflected this view. The Compensation Committee believes that our executive compensation program contributed to the good results achieved by management in 2015, and the resulting compensation to our senior management team was appropriate in light of ISG's operational performance.

**Objectives and Philosophies**

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It is the Company's intent that its executive compensation programs achieve three fundamental objectives: (1) attract, motivate, retain and reward qualified executives; (2) hold executives accountable for performance; and (3) align executives' interests with the interests of our stockholders. In structuring



Table of Contents

the Company's executive compensation programs, we intend to be guided by the following basic philosophies:

*Competition.* The Company should provide competitive compensation opportunities so that it can attract, motivate and retain executives qualified to lead and grow the Company.

*Pay for Performance.* A substantial portion of compensation should be tied to achievement of Company and individual performance goals based on the Company's annual objectives and long-term business strategy. The Company's intention is to reward management for achieving a long-term strategic plan through sustained profitability and long-term growth. Such incentives should be appropriate to our Company's business mission and not encourage Named Executive Officers or other employees to expose the Company to risk that could have a material adverse effect on the Company.

*Alignment with Stockholder Interests.* A substantial portion of compensation should be contingent on the creation of stockholder value. As an executive officer's level of responsibility increases, a greater portion of the officer's total compensation should be dependent on the Company's performance and stockholder returns. In order to further its commitment to aligning executives with stockholder interests, the Company adopted share ownership guidelines effective January 1, 2014 that are described in detail below.

**Elements of Compensation**

As described in more detail below, the material elements of our executive compensation program include a mix of the following, at the discretion of the Compensation Committee: base salary, an annual cash incentive opportunity and an equity component. We believe that these elements of our executive compensation program are critical in helping us achieve our business objectives.

*Fixed Compensation.* Base salary is the element of our current executive compensation program where its value in any given year is generally not variable. Base salaries are paid on a current basis.

*Variable Incentive Compensation.* We anticipate that any annual incentive awards or the realization of compensation from equity awarded in any given year will depend on the performance of the individual and the performance of the Company. Any annual incentive award would generally be paid out on a short-term basis, such as at year end or upon completion of significant projects. Equity awards generally are made on a longer-term basis, with vesting terms that promote retention and long-term service to the Company and performance. We believe that the proper balance of longer-term and short-term elements will focus our executives on achievement of annual objectives and fulfillment of our strategy to create long-term value for our stockholders.

These compensation elements are intended to create a total compensation package for each executive that we believe will achieve the Company's objectives and provide fair and competitive opportunities. We evaluate competitiveness based on data provided by SH&P with respect to market compensation practices as further described below.

**Say-on-Pay Results**

The Compensation Committee considered the result of the 2015 advisory, non-binding say-on-pay vote in connection with the discharge of its responsibilities. A substantial majority of our stockholders approximately 98% of the votes cast approved our 2015 compensation program as described in our proxy statement for the 2015 Annual Meeting. The Compensation Committee has reviewed the voting results and considered whether any adjustments were warranted based on these results and other feedback from stockholders and leading stockholder advisory firms. Our policy is to hold say-on-pay votes on an annual basis.

Table of Contents

**Base Salary**

Base salary is cash compensation that provides a fixed level of cash payments throughout the year that take into account job responsibilities, experience level, competencies and competitive market data. The Compensation Committee reviews and approves base salaries for executives, including Named Executive Officers, annually and in connection with promotions or other changes in responsibilities. The Compensation Committee considers market data, individual compensation history, pay in relation to other executives at the Company ("internal pay equity"), tax deductibility, individual job performance and future potential, as well as evaluations and recommendations by senior management in determining base salary. The weight given to each of these factors may differ from individual to individual, as the Compensation Committee deems appropriate.

Actual salaries earned by and paid to the Named Executive Officers in 2015 are reflected in the Salary column of the Summary Compensation Table on page 31. The following table reflects the annual base salaries of our Named Executive Officers as of December 31, 2015 and December 31, 2014.

Named Executive Officer	2015 Ending Base Salary (\$)	2014 Ending Base Salary (\$)
Michael P. Connors	\$ 780,000	\$ 780,000
David E. Berger	550,000	550,000
R. James Cravens	340,000	325,000

Base salaries for Messrs. Connors and Berger remained the same in 2015 as compared to 2014. On December 15, 2014, the Compensation Committee approved an increase to Mr. Cravens' base salary to \$340,000 from \$325,000 effective as of April 1, 2015.

In reviewing and establishing the 2015 base salaries for the Named Executive Officers, the Compensation Committee referred to a variety of data provided by SH&P for background information and took into account other information regarding the individuals. In considering which companies should be included in the Company's peer group, the Committee considers many criteria, including the following:

Similar industry and business model;

Similar financial size as measured by revenues and market capitalization;

Complexity and scope of operations;

Competition for profits and talent; and

Other characteristics unique to ISG, which could include things like growth trajectory and corporate strategies.

Based on the above, the Company considered compensation levels and practices from the following peer companies: Advisory Board Co., Computer Task Group, Inc., comScore, Inc., CRA International, Inc., Exponent, Inc., Forrester Research, Inc., and Hackett Group, Inc. The data provided by SH&P was used for general reference and for perspective on market compensation practices, and not to specifically benchmark Named Executive Officer salary levels to any percentile or to within a range of percentiles derived from the background data.

Individual factors considered by the Compensation Committee in reviewing and establishing the 2015 base salaries for the Named Executive Officers, included:

*Mr. Connors:* (i) the experiences and capabilities that qualify Mr. Connors to hold comparable positions at significantly larger publicly held companies; (ii) Mr. Connors' salary and total compensation in prior positions; (iii) the current and anticipated future benefit to ISG from having a well-qualified Chief Executive Officer, which enables ISG to pursue its business strategy

Table of Contents

of acquiring, integrating and managing additional businesses under the leadership of an experienced manager who has achieved previous business success; (iv) the absence of any compensation for his services to ISG prior to July 2009; (v) the absence of certain standard elements of compensation customarily provided to executive officers in comparable positions at other companies; and (vi) Mr. Connors' performance in his role as Chief Executive Officer to date.

*Mr. Berger:* (i) a competitive base salary in order to attract, retain and motivate our Chief Financial Officer; (ii) the experiences and capabilities of Mr. Berger which qualify him to hold a comparable position at a larger publicly held company; (iii) Mr. Berger's salary and total compensation in prior positions; and (iv) Mr. Berger's performance in his role as Chief Financial Officer to date.

*Mr. Cravens:* (i) Mr. Cravens' responsibilities; (ii) Mr. Cravens' level of experience; (iii) Mr. Cravens' performance in his role to date; and (iv) equitable levels of salary in relation to compensation of other employees of the Company with high-level positions.

In making its determinations on base salaries, the Compensation Committee took into account the fact that ISG evaluated each Named Executive Officer's overall job performance as highly satisfactory. In addition, in keeping the base salary of Mr. Connors the same for 2015 as 2014, the Compensation Committee considered that Mr. Connors received an increase in 2014 after several years without an increase to base salary. The Compensation Committee's decision on base salaries represented an exercise of its judgment based on the considerations described above, without assigning a specific weighting to separate factors.

**Annual Bonus and Incentive Awards**

Prior to 2014, each of the Named Executive Officers had a target, and in some instances a maximum, cash incentive opportunity expressed as a percentage of base salary. The Compensation Committee would then award the target bonuses, or greater or lesser amounts, to the Named Executive Officers depending upon the financial results of the Company, including achieving certain levels of operating results, and the executive's contribution to such results based on the Compensation Committee's assessment of the Company's profitable growth and strategic progress, as well as the executive's own performance.

At the 2014 Annual Meeting, the Company's stockholders approved the Amended and Restated 2007 Equity and Incentive Award Plan (the "Plan") authorizing the grant of "incentive awards" by the Compensation Committee. These incentive awards provide the Named Executive Officers with the opportunity to earn specified cash amounts (i.e., the award is denominated in cash rather than in shares) by achievement of specific performance goals. Under the Plan, the Compensation Committee is permitted to specify that all or a portion of the cash amount earned or earnable under an incentive award could be converted to shares or an equity award at a specified date. By adding these incentive awards under the Plan, cash incentives, such as annual bonuses, can be qualified as "performance-based compensation" under Internal Revenue Section 162(m), which would enable the Company to claim tax deductions for compensation to certain senior executive officers without limitation under Section 162(m)'s \$1 million deductibility cap (discussed further below under "Section 162(m) Policy").

For 2015, the Compensation Committee authorized annual incentive awards to the Named Executive Officers under the Plan with target and maximum payout amounts. For such awards, the Compensation Committee specified that the Company must have achieved positive adjusted EBITDA as a requirement in order for any annual incentive award to be paid. Adjusted EBITDA, a non-GAAP financial metric, is defined as net income plus income taxes, net interest income/expense, depreciation, foreign currency transaction gains/losses, gain on extinguishment of debt, amortization of intangible assets resulting from acquisitions and non-cash stock compensation and impairment charges for

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### Table of Contents

goodwill and intangible assets). Achievement of this performance goal is intended to satisfy the requirements of Code Section 162(m), which should enable the Company to deduct up to the maximum authorized annual incentive amount for the named executive officer without limitation under Section 162(m). Target and maximum payout levels set forth in the table below were set by the Compensation Committee at levels meant to be competitive, based on survey and other information considered by the Committee.

In addition to the requirement of positive adjusted EBITDA for 2015 imposed to preserve tax deductibility, the Compensation Committee based its award of 2015 bonuses for each Named Executive Officer on the Committee's assessment of ISG performance and the executive's individual performance. In determining bonus payments for the Named Executive Officers for fiscal 2015, the Compensation Committee took into account the fact that ISG's results were favorable and its assessment of each Named Executive Officer's contribution in achieving those results. The Compensation Committee believes that this structure, which allows the Committee to make subjective assessments of performance and payouts, is appropriate based on the rapid development of ISG as a comparatively young company operating in a dynamic international business environment.

Based on the Company's performance and individual performance, the Compensation Committee approved bonuses payable in a combination of cash and restricted stock units as follows: (i) for Mr. Connors, equal to his target amount, payable with a cash amount of \$156,000 and a grant of restricted stock units on March 15, 2016 with a value on the grant date equal to \$624,000, (ii) for Mr. Berger slightly less than his target amount, payable with a cash amount of \$63,000 and a grant of restricted stock units on March 15, 2016 with a value on the grant date equal to \$252,000 and (iii) for Mr. Cravens less than his target amount, payable with a cash amount of \$20,000 and a grant of restricted stock units on March 15, 2016 with a value on the grant date equal to \$80,000. These equity awards are shown in the Summary Compensation Table as 2015 compensation, in the "Stock Awards" column.

Name and Position	Maximum Dollar Value of Annual Incentive Earnable for 2015	Target Dollar Value of Annual Incentive Earnable for 2015	Actual Dollar Value of Annual Incentive Earned for 2015
Michael P. Connors Chairman and Chief Executive Officer	\$ 1,560,000	\$ 780,000	\$ 780,000
David E. Berger Executive Vice President and Chief Financial Officer	\$ 700,000	\$ 350,000	\$ 315,000
R. James Cravens Executive Vice President and Chief Human Resources & Communications Officer	\$ 300,000	\$ 150,000	\$ 100,000

### **Long-Term Equity Incentive Awards**

The Compensation Committee has the authority to grant stock options, restricted stock units and other equity awards under the Plan to executive officers, including the Named Executive Officers, and other key employees. The purpose of the Plan is to provide equity as a component of executive compensation to assure competitiveness of total compensation, to motivate executive officers and key employees to focus on long-term Company performance, to align executive compensation with stockholder interests and to retain the services of the executives during the vesting period because, in most instances, the awards will be forfeited if the recipient voluntarily leaves the employ of the Company before the award vests.

Table of Contents

The Compensation Committee believes that the executives' long-term compensation should be directly linked to the Company's strategic progress and creation of stockholder value. At its discretion, the Compensation Committee periodically has made awards intended to create a meaningful stock incentive in light of the executive's current position with the Company, personal performance, potential impact and contributions to the growth of the enterprise, marketplace practice and the terms of any individual employment agreements. An additional key consideration in making these awards also is to promote retention of the grantee and long-term service to the Company. Similarly, the Compensation Committee uses long-term equity awards granted to new executives as a means to induce such persons to join the Company.

On June 1, 2015, the Company granted 195,313 restricted stock units to Mr. Connors, 72,917 restricted stock units to Mr. Berger and 32,552 restricted stock units to Mr. Cravens. These restricted stock units will vest in four equal annual installments on the anniversaries of the grant date. The Compensation Committee granted the restricted stock units in order to enhance retention of the Named Executive Officers and provide a long-term incentive for advancing the Company's business strategy and creating stockholder value.

As discussed above under "Annual Bonus and Incentive Awards," for fiscal 2015, the Compensation Committee approved bonuses payable in a combination of cash and restricted stock units. The restricted stock units granted on March 15, 2016 vest in full on the first anniversary of the grant date. Upon vesting, the restricted stock units will be settled in shares of common stock. The Compensation Committee determined to pay a portion of the annual incentive as restricted stock units in order to enhance retention of Named Executive Officers and provide greater alignment of executive officers with interests of stockholders.

**Other Compensation**

The Company sponsors a tax-qualified 401(k) plan with a profit sharing feature (the "Savings Plan"). The Savings Plan provides retirement benefits for participating employees. Participating employees can contribute a portion of their eligible salary on a pre-tax basis up to a maximum amount set by the Internal Revenue Code. For 2015, the maximum pre-tax contribution by an employee into the Savings Plan was \$18,000, except for specified catch-up contributions permitted by participants who are age 50 or older. The Company provides a 3% annual contribution on behalf of each employee based on the employee's cash compensation, regardless of whether the employee contributes to the Savings Plan and subject to a cap of \$7,950 in 2015. The Company's contributions to Named Executive Officers under the Savings Plan can be found in the All Other Compensation column of the Summary Compensation Table on page 31.

The Company provides limited amounts of perquisites and other personal benefits to the Named Executive Officers from time to time, at levels intended to be reasonable and consistent with our overall compensation program. Perquisites and other personal benefits provided to the Named Executive Officers in 2015 are reflected in the All Other Compensation column of the Summary Compensation Table on page 31 and the corresponding footnotes. For 2015, the only significant perquisite was reimbursement of expenses for spousal travel in connection with an annual corporate recognition event, including a tax gross-up relating to the reimbursement.

**Severance and Other Benefits Upon Termination of Employment**

In determining whether to enter into an agreement with an executive officer that provides for severance payments if the executive officer is involuntarily terminated, the Compensation Committee considers the significance of the executive officer's position with the Company, its ability to attract and retain talent as a result of executive management changes and the amount of time it potentially would take the executive to locate another position. The Compensation Committee believes that offering severance commitments is necessary and appropriate in order to attract executives and retain them to provide long-term service to the Company.

Table of Contents

On December 16, 2011, Mr. Connors entered into the Connors Employment Agreement, which was amended subsequently on December 10, 2013 to extend the term until December 31, 2017. Mr. Connors has been Chairman and Chief Executive Officer of the Company since the Company's inception. Prior to entering into the Connors Employment Agreement, Mr. Connors' employment with the Company was at-will. Mr. Connors' Change in Control Agreement with the Company as described below continues to apply pursuant to its terms. The terms of the Connors Employment Agreement relating to salary, bonus and benefits are described below under the caption "Employment Agreements and Employment Letters." The Connors Employment Agreement also provides for severance and other compensation upon termination of Mr. Connors' employment in specified circumstances. Subject to Mr. Connors executing a release of claims agreement in favor of the Company, in the event Mr. Connors is terminated by the Company without "Cause" or resigns for "Good Reason" (each as defined in the Connors Employment Agreement), the Company will provide him with two times his then applicable base salary plus two times his annual target bonus, payable over the 24-month period following his termination (but the Company may, in its sole discretion, pay this amount in a single lump sum, to the extent permitted under Section 409A of the Internal Revenue Code). In addition, the Company will also provide Mr. Connors with a pro-rated annual bonus for the year in which he is terminated based on the Company's actual performance for such year. The pro-rated bonus will be payable at the time Mr. Connors' annual bonus would have otherwise been paid if his employment had not been terminated. If Mr. Connors is terminated without Cause or resigns for Good Reason at any time during the 24-month period following a Change in Control or within 60 days prior to a Change in Control, provided such termination is at the request of an acquirer or otherwise in anticipation of a Change in Control, Mr. Connors' severance payments will be governed by his Change in Control Agreement described below.

In connection with the hiring of Mr. Berger in 2009, the Company entered into an agreement with him on October 5, 2009 (the "Berger Severance Agreement") that provides that, in the event of certain terminations of his employment, subject to Mr. Berger executing a release of claims agreement in favor of the Company, he will receive a lump sum severance payment in an amount equal to his then applicable base salary plus his target bonus for the applicable year. These severance obligations will be triggered if Mr. Berger is terminated by ISG without "Cause" or if Mr. Berger resigns for "Good Reason" (each as defined in the Berger Severance Agreement). If Mr. Berger is terminated without Cause or resigns for Good Reason at any time during the 24-month period following a Change in Control or within 60 days prior to a Change in Control, provided such termination is at the request of an acquirer or otherwise in anticipation of a Change in Control, Mr. Berger's severance payments will be governed by his Change in Control Agreement described below.

The Compensation Committee believes that the provisions in the Connors Employment Agreement, Whitmore Severance Agreement and Berger Severance Agreement governing termination and severance arrangements are consistent with ISG's compensation objectives to attract, motivate and retain highly talented executive officers in a competitive environment.

**Change in Control Arrangements**

To preserve morale and productivity and encourage retention in the face of the disruptive impact of an actual or rumored change in control, the Company entered into Change in Control Agreements with Messrs. Connors and Berger on January 7, 2011, which became effective immediately (collectively, the "Change in Control Agreements"). In addition, in connection with the hiring of Mr. Cravens, the Company entered a Change in Control Agreement with him, which became effective on January 15, 2014. The Change in Control Agreements are intended to align executive and stockholder interests by enabling each Named Executive Officer to consider corporate transactions that are in the best interests of the Company, its stockholders and other constituents without undue concern over whether the transactions may jeopardize the Named Executive Officer's own employment.

Table of Contents

The Change in Control Agreements provide for an initial term of two years from the effective date, but this term is automatically extended for successive one-year terms unless a notice of non-renewal is given at least one year before the then scheduled expiration of the term. These agreements provide for a lump sum severance payment as a result of a termination of employment by the Company without "Cause" or by the executive for "Good Reason" (each as defined in the applicable Change in Control Agreement) during the two-year period following a Change in Control (as defined in the applicable Change in Control Agreement), plus protection for pre-change in control terminations that occur in the 60 days prior to a Change in Control at the request of an acquirer or otherwise in anticipation of a Change in Control. The severance payment for each Named Executive Officer is equal to the sum of: (i) a lump-sum cash payment equal to a multiple of two (for Mr. Connors) or one (for Messrs. Berger and Cravens) times the sum of the Named Executive Officer's then current base salary plus the greater of the annual target bonus for the year in which notice of termination is given or the year in which the Change in Control occurs; (ii) a lump-sum cash payment of (a) any accrued but unpaid base salary, (b) any unpaid bonus for the year prior to the year of termination that would have been paid if the executive had remained employed through the determination date of such bonus, (c) a pro rata portion of the target bonus for the year of termination, and (d) any accrued vacation pay; and (iii) a cash payment equal to the cost, on an after-tax basis, of continuation coverage for medical, dental and vision plans during the applicable COBRA continuation coverage period, less the portion of such cost the Named Executive Officer would have been required to contribute had he remained employed with the Company. Based in part upon information provided by SH&P, the Compensation Committee believes that the benefits and terms under the Change in Control Agreements are appropriate.

Pursuant to the terms of the Plan, the Compensation Committee has broad discretion to determine the treatment of equity awards in the event of a Change in Control as follows: (i) if determined by the Compensation Committee and specified in the applicable award agreement or otherwise, any outstanding awards then held by participants which are unexercisable or otherwise unvested or subject to lapse and/or performance restrictions will automatically be deemed exercisable or otherwise vested or no longer subject to lapse and/or performance restrictions, as the case may be, immediately prior to such change in control and (ii) the Compensation Committee may, but will not be obligated to, (A) accelerate, vest or cause the restrictions to lapse with respect to all or any portion of an award, (B) cancel such awards for fair market value (as determined in the sole discretion of the compensation committee) which, in the case of options and stock appreciation rights, may equal the excess, if any, of value of the consideration to be paid in the change in control transaction to holders of the same number of shares subject to such options or stock appreciation rights (or, if no consideration is paid in any such transaction, the fair market value of the shares subject to such options or stock appreciation rights) over the aggregate exercise price of such options or stock appreciation rights, (C) provide for the issuance of substitute awards that will substantially preserve the otherwise applicable terms of any affected awards previously granted hereunder as determined by the compensation committee in its sole discretion or (D) provide that for a period of at least ten business days prior to the change in control, such options or stock appreciation rights will be exercisable as to all shares subject thereto and that, upon the occurrence of the change in control, such options or stock appreciation rights will terminate and be of no further force and effect.

**Employment Agreements and Employment Letters**

As discussed above, on December 16, 2011, Mr. Connors entered into the Connors Employment Agreement with the Company, as amended on December 10, 2013 to extend the term until December 31, 2017. The Connors Employment Agreement provides for a base salary of \$700,000 per year (the Compensation Committee raised this to \$780,000 in 2014) and a target bonus opportunity between 100% and 200% of base salary, and provides that Mr. Connors is eligible to receive equity grants from the Company. The other compensation provided under the Connors Employment

Table of Contents

Agreement is discussed above. In connection with a grant of restricted stock units in January 2011, Mr. Connors executed the Company's form of restrictive covenant agreement (the "Restrictive Covenant Agreement") requiring him not to disclose confidential information of the Company at any time, and for the period during which he is employed by the Company and the 24-month period thereafter, not to compete with us, not to interfere with our business, and not to solicit nor hire our employees or customers. The Compensation Committee believes that entering into the Connors Employment Agreement and the related commitments was advisable and appropriate in order for ISG to induce Mr. Connors to remain Chief Executive Officer and to encourage his long-term service to the Company.

Pursuant to the Berger Employment Letter, Mr. Berger receives an annual base salary of \$550,000 and is eligible to receive equity grants and discretionary bonuses from the Company. In connection with a grant of restricted stock units in January 2011, Mr. Berger entered into the Restrictive Covenant Agreement with the Company. Also, pursuant to the Berger Employment Letter, Mr. Berger was required to purchase 125,000 shares of ISG common stock, which he purchased on November 12, 2009. The Compensation Committee believes that entering into the Berger Employment Letter and the related commitments was advisable and appropriate in order for ISG to induce Mr. Berger to become an executive officer and to encourage his long-term service to the Company.

Pursuant to the Cravens Employment Letter, Mr. Cravens commenced his employment with the Company on January 15, 2014 and received a base salary of \$325,000, had a target bonus opportunity equal to \$150,000 for 2014 and is eligible to receive equity grants from the Company. In connection with a grant of restricted stock units in February 2014, Mr. Cravens entered into the Restrictive Covenant Agreement with the Company. On December 15, 2014, the Compensation Committee approved an increase to Mr. Cravens' base salary to \$340,000 from \$325,000 effective as of April 1, 2015. Also, pursuant to the Cravens Employment Letter, Mr. Cravens was required to purchase up to 25,000 shares of ISG common stock. Pursuant to the Cravens Employment Letter, the Company agreed to match his purchase 1:1 with a grant of restricted stock units provided his open market purchases were completed by March 31, 2014. Mr. Cravens purchased 25,000 shares in December 2013, and on February 3, 2014, the Company granted Mr. Cravens 25,000 restricted stock units, which vested in full on February 1, 2015. In addition, on February 3, 2014, the Company granted Mr. Cravens 50,000 restricted stock units, which will vest in four equal annual installments on each of the first four anniversaries of the grant date. To assist with his transition, the Company provided a one-time transition payment of \$25,000 to Mr. Cravens. The Compensation Committee believes that entering into the Cravens Employment Letter and the related commitments was advisable and appropriate in order for ISG to induce Mr. Cravens to become an executive officer and to encourage his long-term service to the Company.

**Stock Ownership Guidelines**

The Company has instituted stock ownership guidelines effective January 1, 2014 for all of its directors and executive officers to better align their own financial interests with the interests of the Company's stockholders. Non-employee directors are expected to hold an amount of stock equal to five times their annual cash retainer. The Chairman and Chief Executive Officer is expected to hold an amount of stock equal to six times his annual base salary. The other Named Executive Officers are expected to hold an amount of stock equal to three times their annual base salary, and other key executives of the Company are expected to hold an amount of stock equal to two times their annual base salary. Directors and executive officers are required to achieve the applicable stock ownership threshold within five years of becoming subject to the guidelines. All shares and share equivalents, including unvested restricted stock, unvested restricted stock units and shares held are considered in determining compliance with this requirement. Stock options are not considered, but shares acquired upon stock option exercises count towards the satisfaction of share ownership guidelines. The



Table of Contents

Compensation Committee reviews compliance with the guidelines on an annual basis, and has the discretion to suspend, reevaluate and revise the guidelines from time to time. All Directors and Named Executive Officers, with the exception of one Named Executive Officer who is within the permitted phase-in period, are in compliance with the stock ownership guidelines as of March 14, 2016.

**Insider Trading Policy**

Our insider trading policy permits directors, Named Executive Officers and other key employees to trade our securities only during limited window periods following earnings releases and only after they have pre-cleared transactions with the Chief Financial Officer, but, in no event, while in possession of material, non-public information. The insider trading policy also prohibits directors, Named Executive Officers and other key employees from buying or selling puts, calls, options or similar derivative securities based on the value of ISG securities, including for hedging purposes.

**Section 162(m) Policy**

Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly-held companies for compensation paid to certain executive officers, to the extent that compensation exceeds \$1 million per officer in any year. The limitation applies only to compensation which is not considered to be performance-based. The Plan authorizes the Compensation Committee to grant awards of stock options, equity awards and incentive awards denominated in cash, including annual incentives, with performance goals that can qualify for tax deductibility without limitation under Section 162(m), although some forms of awards under the Plan do not qualify as performance-based. The Compensation Committee considers the anticipated tax treatment to the Company and our executive officers when determining executive compensation and establishing our compensation programs. In this regard, the Committee intends that annual incentives payable to Named Executive Officers covered by Section 162(m), including any portion paid out as restricted stock units and restricted stock units not granted as annual incentive payouts, will qualify as performance-based compensation that remains fully deductible by ISG, but there can be no assurance that the requirements for tax deductibility are met in all cases.

Table of Contents

**REPORT OF THE COMPENSATION COMMITTEE**

The Compensation Committee has submitted the following report for inclusion in this Proxy Statement:

Our Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based on our Committee's review of and the discussions with management with respect to the Compensation Discussion and Analysis, our Committee recommended to ISG's Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

During 2015, Mr. Gerald S. Hobbs (Chairman), Mr. Neil G. Budnick, Ms. Christine Putur, Ms. Kalpana Raina and Mr. Donald C. Waite III served as members of the Compensation Committee..

The foregoing report is provided by the following directors, who constitute the Committee:

THE COMPENSATION COMMITTEE

Mr. Gerald S. Hobbs (Chairman)

Mr. Neil G. Budnick

Ms. Christine Putur

Ms. Kalpana Raina

Mr. Donald C. Waite III

30

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Table of Contents**SUMMARY COMPENSATION TABLE**

The "Summary Compensation Table" below quantifies the value of the different forms of compensation earned by or awarded to our three Named Executive Officers in 2015, 2014 and 2013. The primary elements of each Named Executive Officer's total compensation reported in the table are base salary, annual incentive awards and stock awards, as further described in the footnotes to the table identified therein.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(2)	Non-Equity Incentive		Total (\$)
					Plan Compensation \$(3)	All Other Compensation \$(4)	
Michael P. Connors Chairman and Chief Executive Officer	2015	\$ 780,000	\$	\$ 1,374,002	\$ 156,000	\$ 28,411(5)	\$ 2,338,413
	2014	\$ 733,333	\$	\$ 2,129,999	\$ 200,000	\$ 29,941	\$ 3,093,273
	2013	\$ 700,000	\$ 525,000	\$ 555,000	\$	\$ 16,323	\$ 1,796,323
David E. Berger Executive Vice President and Chief Financial Officer	2015	\$ 550,000	\$	\$ 532,001	\$ 63,000	\$ 7,950	\$ 1,152,951
	2014	\$ 550,000	\$	\$ 395,000	\$ 150,000	\$ 8,312	\$ 1,103,312
	2013	\$ 550,000	\$ 225,000	\$ 198,500	\$	\$ 7,650	\$ 981,150
R. James Cravens(1) Executive Vice President Chief Human Resources & Communications Officer	2015	\$ 336,250(1)	\$	\$ 205,000	\$ 20,000	\$ 30,461(5)	\$ 591,711
	2014	\$ 312,708	\$	\$ 480,000	\$ 25,000	\$ 32,800	\$ 850,508

- (1) Mr. Cravens joined the Company on January 15, 2014, and therefore, was not a Named Executive Officer in 2013. On December 15, 2014, the base salary of Mr. Cravens was increased to \$340,000 effective as of April 1, 2015. The amount reflected in the Salary column for 2015 for Mr. Cravens reflects a base salary at the annual rate of \$325,000 for 2015 up to April 1, 2015 and at the annual rate of \$340,000 thereafter.
- (2) Represents the aggregate grant date fair value of equity awards granted as calculated pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 718, *Compensation - Stock Compensation* ("ASC Topic 718") (without reduction for estimated forfeitures related to service-based vesting conditions). The fair value of the equity award is calculated based upon the closing price per share on the NASDAQ Global Market on the grant date. Further information regarding our equity compensation awards and their valuations can be found in Note 16 "Stock Based Compensation Plans" to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. The amount shown for 2015 includes the value of restricted stock units granted on March 15, 2016 as a portion of 2015 annual incentive bonus (not included in the Non-Equity Incentive Plan Compensation column) as follows: Mr. Connors, \$624,000; Mr. Berger, \$252,000; and Mr. Cravens, \$80,000.
- (3) The amounts in the Non-Equity Incentive Plan Compensation column are cash annual incentive awards earned by the Named Executive Officers under the Plan. The awards are based on pre-established payout amounts that require achievement of a pre-set performance goal as a condition to payment, with the outcome of the performance goal substantially uncertain at the time the goal is established. Therefore, these award payouts are reportable as "Non-Equity Incentive Plan Compensation" rather than as "Bonus." As discussed in the Compensation Discussion and Analysis above, the Compensation Committee retains substantial discretion in determining the award payout amount, if the pre-established performance goal is met. A portion of the cash annual incentive awards for 2015 were settled in grants of restricted stock units that are included in the Stock Awards column as described in note (2) above.
- (4) Pursuant to ISG's qualified defined contribution profit-sharing plan for U.S.-based employees, Messrs. Connors, Berger and Cravens each received an annual contribution of \$7,950 for 2015 based on their cash compensation.
- (5) For 2015, All Other Compensation for Mr. Connors includes an amount for spousal travel in connection with our annual corporate recognition event of \$10,411 and a related tax "gross-up" of \$10,050 and for Mr. Cravens includes an amount for spousal travel in connection with our annual corporate recognition event of \$11,289 and a related tax "gross-up" of \$11,222.

Table of Contents**GRANT OF PLAN BASED AWARDS**

The following table summarizes each grant of an award made to the Named Executive Officers during 2015.

Name	Grant Date	Date on which the Compensation Committee Took Action	Grants of Plan-Based Awards in 2015 Estimated Future Payouts under Non-Equity Incentive Plan Award(1)			All Other Stock Awards Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards(4)
			Threshold	Target	Maximum		
Mr. Connors	6/1/2015	12/15/2014	\$ 0	\$ 780,000	\$ 1,560,00	195,313(2)	\$ 750,000
	3/15/2016	12/15/2015				167,292(3)	\$ 624,000
Mr. Berger	6/1/2015	12/15/2014	\$ 0	\$ 350,000	\$ 700,000	72,917(2)	\$ 280,000
	3/15/2016	12/15/2015				67,560(3)	\$ 252,000
Mr. Cravens	6/1/2015	12/15/2014	\$ 0	\$ 150,000	\$ 300,000	32,552(2)	\$ 125,000
	3/15/2016	12/15/2015				21,448(3)	\$ 80,000

- (1) Reflects cash incentive award opportunities for 2015 under the Plan. We have elected to show the full potential cash annual incentive award amounts in these columns. However, the Compensation Committee determined, at December 15, 2015, that a portion of the annual incentive award to each Named Executive Officer would be settled by grant of restricted stock units, which caused that portion to become subject to ASC Topic 718. Under SEC disclosure rules, the portion of the annual incentive awards settled in restricted stock units is reflected in this table and in the Summary Compensation Table as Stock Awards. Therefore, the restricted stock units granted on March 15, 2016 and the fair value thereof shown in the two right-hand columns of this table duplicate the potentially earnable cash amounts shown as "Target" or "Maximum" payouts in these columns. The annual incentive awards actually paid to Named Executive Officers for 2015 are reflected in the "Summary Compensation Table" on page 31, with the cash portion shown in the Non-Equity Incentive Plan Compensation column and the value of the restricted stock units shown in the "Stock Awards" column.
- (2) Grant of restricted stock units that vest in four equal annual installments on each of the first four anniversaries of the grant date.
- (3) Grant of restricted stock units that vest 100% upon the first anniversary of the grant date.
- (4) Represents the aggregate grant date fair value of equity awards granted as calculated pursuant to ASC Topic 718. See note (2) to the Summary Compensation Table above.

Table of Contents**OUTSTANDING EQUITY AWARDS AT 2015 FISCAL YEAR-END**

The following table summarizes the unvested restricted stock units outstanding as of December 31, 2015 for the Named Executive Officers.

Name	Date of Grant	Stock Awards	
		Number of Shares or Units of Stock That Have Not Vested(1)	Market Value of Shares or Units of Stock That Have Not Vested(2)
Mr. Connors	1/2/2014	146,341	\$ 529,754
	7/1/2014	116,944	\$ 423,337
	3/13/2015	150,649	\$ 545,349
	6/1/2015	195,313	\$ 707,033
Mr. Berger	7/1/2014	43,659	\$ 158,046
	3/13/2015	29,870	\$ 108,129
	6/1/2015	72,917	\$ 263,960
Mr. Cravens	2/3/2014	37,500	\$ 135,750
	3/13/2015	19,481	\$ 70,521
	6/1/2015	32,552	\$ 117,838

(1)

The vesting schedule for the number of restricted stock units shown in this column is as follows: (a) of the restricted stock units granted on January 2, 2014, one-third vested on January 2, 2016, one-third vests on January 2, 2017 and one-third vests on January 2, 2018; (b) of the restricted stock units granted on July 1, 2014, one-third vests on July 1, 2016, one-third vests on July 1, 2017 and one-third vests on July 1, 2018; and (c) of the restricted stock units granted on February 3, 2014, one-third vested on February 3, 2016, one-third vests on February 3, 2017 and one-third vests on February 3, 2018. For the restricted stock units granted in 2015, the vesting schedule is set forth in the notes to the "Grant of Plan Based Awards Table" above.

(2)

The market value is based on the closing price per share of the Company's common stock on December 31, 2015 of \$3.62 per share, multiplied by the number of shares or units.

**STOCK VESTED DURING 2015**

The following table sets forth the actual value realized by the Named Executive Officers upon the vesting of restricted stock units in 2015.

Name	Restricted Stock Units Vested in 2015	
	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
Mr. Connors	173,116	\$ 724,716
Mr. Berger	48,455	\$ 202,109
Mr. Cravens	37,500	\$ 150,750

(1)

Value realized on vesting is based on the fair market value of the shares subject to the vested restricted stock units at the time of vesting. The fair market value is based on the closing price per share of the Company's common stock on the date of vesting, multiplied by the number of shares acquired on vesting.



Table of Contents

**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**

Pursuant to the Connors Employment Agreement, if at December 31, 2015, ISG had terminated Mr. Connors' employment without Cause or he had terminated his employment for Good Reason, ISG would have been obligated to pay him a severance amount equal to \$3,120,000. For further details, please see the Compensation Discussion and Analysis section of this proxy statement.

Pursuant to the Berger Severance Agreement, if at December 31, 2015, ISG had terminated Mr. Berger's employment without Cause or he had terminated his employment for Good Reason, ISG would have been obligated to pay him a severance amount equal to \$900,000. For further details, please see the Compensation Discussion and Analysis section of this proxy statement.

Pursuant to the Change in Control Agreements, if at December 31, 2015, a Change in Control occurred and the employment of the Named Executive Officers was terminated without Cause or for Good Reason, ISG would have been obligated to pay Messrs. Connors, Berger and Cravens amounts equal to \$3,120,000, \$900,000 and \$490,000, respectively (these payments would have been in lieu of severance amounts payable as described above for certain terminations not relating to a Change in Control). Such agreements provide also for a payment of pro rata annual incentive actually earned for the fiscal year. The amounts payable under the Change in Control Agreements would be subject to reduction if aggregate payments to the executive in connection with the Change in Control would trigger a golden parachute excise tax on the executive and the effect of a reduction would be to provide a greater after-tax benefit to the executive. No gross-up for golden parachute excise taxes is payable by ISG. For further details, please see the Compensation Discussion and Analysis section of this proxy statement.

As described under "Compensation Discussion and Analysis Change in Control Arrangements" above, pursuant to the terms of the Plan, in the event of a change in control, the Compensation Committee may accelerate the vesting of outstanding awards then held by participants.

Table of Contents**DIRECTOR COMPENSATION**

The compensation for ISG's non-employee directors is determined by the Board of Directors. The objectives of the compensation program are to attract and retain highly qualified directors, and to compensate them in a manner that aligns their interests with those of our stockholders. The following table presents information regarding compensation for our non-employee directors during 2015. Our non-employee directors received no other compensation for their services. Our non-employee director compensation program for 2015 consisted of an annual cash retainer of \$40,000 and a grant of restricted stock units ("RSUs") with a fixed dollar value of \$110,000 based on the fair market value of ISG common stock on the grant date, for service on the Board of Directors for the fiscal year ending on December 31, 2016. On December 15, 2015, 31,977 RSUs were granted to each non-employee director. The RSUs vest over a three-year period subject to accelerated vesting in the event of a change in control or the death or disability of the non-employee director.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	All Other Compensation (\$)	Total (\$)
Neil G. Budnick	\$ 40,000	\$ 110,000	\$	\$ 150,000
Gerald S. Hobbs	\$ 40,000	\$ 110,000	\$	\$ 150,000
Christine Putur	\$ 40,000	\$ 110,000	\$	\$ 150,000
Kalpana Raina	\$ 40,000	\$ 110,000	\$	\$ 150,000
Donald C. Waite III	\$ 40,000	\$ 110,000	\$	\$ 150,000

(1)

These amounts represent the aggregate grant date fair value of equity awards granted in the specified fiscal year as calculated pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 718, *Compensation Stock Compensation* (ASC Topic 718) (excluding estimates of forfeitures related to service-based vesting conditions). The fair value of the equity award is calculated based upon the closing price per share on the NASDAQ Global Market on December 15, 2015, the date of grant.

As of December 31, 2015, our non-employee directors had outstanding the following unvested restricted stock units.

Name	Unvested Restricted Stock Units
Neil G. Budnick	62,024
Gerald S. Hobbs	62,024
Christine Putur	81,469
Kalpana Raina	62,024
Donald C. Waite III	62,024

Messrs. Budnick, Hobbs and Waite and Ms. Raina were each awarded 35,000 restricted stock units on December 10, 2013, which vest in three equal installments on each of the first, second and third anniversaries of December 10, 2013. Messrs. Budnick, Hobbs and Waite and Ms. Putur and Ms. Raina were each awarded 27,569 restricted stock units on December 15, 2014, which vest in three equal installments on each of the first, second and third anniversaries of December 15, 2014. As discussed above, Messrs. Budnick, Hobbs and Waite and Ms. Putur and Ms. Raina were each awarded 31,977 restricted stock units on December 17, 2015, which vest in three equal installments on each of the first, second and third anniversaries of December 17, 2015.



Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following table sets forth information regarding the beneficial ownership of ISG common stock as of March 14, 2016 by:

each person known by ISG to be the beneficial owner of more than 5% of our outstanding shares of common stock;

each of ISG's Named Executive Officers and directors; and

all of ISG's executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. Except as otherwise indicated, each person or entity named in the table has sole voting and investment power with respect to all shares of our common stock shown as beneficially owned, subject to applicable community property laws. As of March 14, 2016, 37,393,647 shares of our common stock were issued and outstanding. The number of shares reported as beneficially owned is as of March 14, 2016, unless otherwise indicated. Percentages are calculated based on the number of shares outstanding at March 14, 2016.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Approximate Percentage of Outstanding Common Stock
<i>Stockholders Beneficially Owning More Than 5%.</i>		
Chartwell Investment Partners(2)	3,290,312	8.8%
Chevillon & Associés(3)	2,687,495	7.2%
Marek Gumienny(4)	2,653,136	7.1%
Thomson Hortsmann & Bryant, Inc.(5)	2,101,567	5.6%
Vanguard Explorer Fund(6)	2,022,107	5.4%
<i>Directors and Executive Officers</i>		
Michael P. Connors(7)(8)	3,313,027	8.9%
David E. Berger(9)	382,873	1.0%
R. James Cravens(10)	68,848	*
Neil G. Budnick(8)(11)	157,522	*
Gerald S. Hobbs(8)(11)	251,966	*
Christine Putur(8)(11)	40,300	*
Kalpana Raina(8)(11)	213,522	*
Donald C. Waite III(8)(11)	251,966	*
All directors and executive officers as a group (8 individuals)	4,680,024	12.5%

\*

Less than 1%.

(1)

Unless otherwise noted, the business address of each of the individuals is c/o Information Services Group, Inc., Two Stamford Plaza, 281 Tresser Boulevard, Stamford, CT 06901.

(2)

Chartwell Investment Partners ("Chartwell") filed a Schedule 13G Amendment on January 5, 2016 reporting no voting power over any shares and sole dispositive power over the number of shares reflected in the table. The address of Chartwell is 1235 Westlakes Drive, Suite 400, Berwyn, PA 19312.

(3)

Chevillon & Associés ("Chevillon") filed a Schedule 13G Amendment on January 19, 2016 reporting beneficial ownership of the number of shares reflected in the table. The business address of Chevillon is 4/6 Rond Point des Champs Elysées, Paris, France

75008.

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### Table of Contents

- (4) Marek Gumienny filed a Schedule 13G Amendment on February 8, 2016 reporting sole voting and dispositive power over the number of shares reflected in the table. The address of Mr. Gumienny is c/o 24 Haymarket, 3rd Floor, 24 Haymarket, London, SW1Y 4DG.
- (5) Thomson Hortsman & Bryant, Inc. ("TH&B") filed a Schedule 13G on January 20, 2016 reporting shared voting power over 993,107 shares and sole dispositive power over the number of shares reflected in the table. The address of TH&B is 501 Merrit 7, Norwalk, CT 06851.
- (6) Vanguard Explorer Fund ("Vanguard") filed a Schedule 13G on February 9, 2016 reporting sole voting power over the number of shares reflected in the table and no dispositive power over any shares. The address of Vanguard is 100 Vanguard Blvd., Malvern, PA 19355.
- (7) Mr. Connors serves as Chairman of the Board and Chief Executive Officer. Shares beneficially owned exclude shares issuable in settlement of 409,818 restricted stock units which do not vest within 60 days after March 14, 2016.
- (8) Each of these individuals is a director.
- (9) Mr. Berger serves as Executive Vice President and Chief Financial Officer. Shares beneficially owned exclude shares issuable in settlement of 116,576 restricted stock units that do not vest within 60 days after March 14, 2016.
- (10) Mr. Cravens serves as Executive Vice President and Chief Human Resources & Communications Officer. Shares beneficially owned exclude shares issuable in settlement of 57,552 restricted stock units that do not vest within 60 days after March 14, 2016.
- (11) Shares beneficially owned exclude shares issuable in settlement of restricted stock units that do not vest within 60 days after March 14, 2016 as follows: (i) 62,024 for each of Messrs. Budnick, Hobbs, Waite and Ms. Raina and (ii) 65,913 for Ms. Putur.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Pursuant to Section 16(a) of the Securities Exchange Act of 1934, ISG's directors and executive officers, and any persons holding 10% or more of its common stock, are required to report their beneficial ownership and any changes therein to the SEC. Specific due dates for those reports have been established, and ISG is required to report herein any failure to file such reports by those due dates. Based on ISG's review of Forms 3, 4 and 5 filed by such persons and representations of directors and officers provided to ISG, it believes that during the year ended December 31, 2015, all Section 16(a) filing requirements applicable to such persons were met in a timely manner.

### **STOCKHOLDER PROPOSALS AND NOMINATIONS**

Any stockholder desiring to submit a proposal to be presented for consideration in our 2017 Proxy Statement must submit such proposal, including proposals with respect to recommending director candidates, to us no later than the close of business on November 18, 2016. Under Rule 14a-8 of the Exchange Act, a stockholder submitting a proposal is required to be a record or beneficial owner of at least 1% or \$2,000 in market value of the common stock and to have held such stock for at least one year prior to the date of submission of the proposal, and he or she must continue to own such securities through the date on which the meeting is held.

In addition, under our Bylaws, any stockholder intending to nominate a candidate for election to the Board or to propose any business at our 2017 Annual Meeting must give timely written notice to our Chief Financial Officer at the address set forth below. A nomination or proposal for the 2017 Annual Meeting will be considered timely if it is received no earlier than November 29, 2016 and no later than January 28, 2017. If the date of the 2017 Annual Meeting is advanced by more than 30 days or is delayed by more than 70 days from April 28, 2017, then to be timely, the nomination or proposal must be received by the Company no later than the close of business on the 15th day following the day



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### Table of Contents

on which public announcement of the date of the 2017 Annual Meeting is first made. The notice of nomination or proposal must detail the information specified in the Company's Bylaws. We will not entertain any proposals or nominations at the 2017 Annual Meeting that do not meet the requirements set forth in our Bylaws. Our Bylaws have been filed with the SEC and you may obtain a copy of the Bylaws as filed with the SEC free of charge from our website at [www.isg-one.com/investors](http://www.isg-one.com/investors). To make a submission or to request a copy of our Bylaws, stockholders should contact our Chief Financial Officer at c/o Information Services Group, Inc., Two Stamford Plaza, 281 Tresser Boulevard, Stamford CT 06901.

Table of Contents

**TRANSACTION OF OTHER BUSINESS**

At the date of this Proxy Statement, the Board of Directors knows of no other business that will be conducted at the 2016 Annual Meeting other than as described in this Proxy Statement. If any other matter or matters are properly brought before the meeting, or any adjournment or postponement of the meeting, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

By Order of the Board of Directors,

Michael P. Connors  
*Chairman of the Board and Chief Executive Officer*

March 18, 2016











