

PATRIOT NATIONAL BANCORP INC
Form 10QSB
August 12, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the Quarter Ended June 30, 2005

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.
(Exact name of small business issuer as specified in its charter)

Connecticut
(State of incorporation)

06-1559137
(I.R.S. Employer Identification Number)

900 Bedford Street, Stamford, Connecticut 06901
(Address of principal executive offices)

(203) 324-7500
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

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

Common stock, \$2.00 par value per share, 2,489,391 shares issued and outstanding as of the close of business July 29, 2005.

Transitional Small Business Disclosure Format (check one): Yes No

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PART I - FINANCIAL INFORMATION**Item 1. Consolidated Financial Statements****PATRIOT NATIONAL BANCORP, INC
CONSOLIDATED BALANCE SHEETS**

| | June 30, 2005 (Unaudited) | December 31, 2004 |
|---|---------------------------------|-----------------------|
| ASSETS | | |
| Cash and due from banks | \$ 3,677,943 | \$ 6,670,409 |
| Federal funds sold | 17,200,000 | 37,500,000 |
| Short term investments | 266,279 | 11,460,057 |
| Cash and cash equivalents | 21,144,222 | 55,630,466 |
| Available for sale securities (at fair value) | 83,812,054 | 76,269,475 |
| Federal Reserve Bank stock | 693,200 | 692,600 |
| Federal Home Loan Bank stock | 1,296,700 | 1,296,700 |
| Loans receivable (net of allowance for loan losses: 2005 \$3,841,525; 2004 \$3,481,525) | 300,659,927 | 263,874,820 |
| Accrued interest receivable | 1,948,625 | 1,758,339 |
| Premises and equipment | 2,491,889 | 2,132,633 |
| Deferred tax asset, net | 1,785,397 | 1,677,042 |
| Goodwill | 930,091 | 930,091 |
| Other assets | 970,755 | 784,789 |
| Total assets | \$ 415,732,860 | \$ 405,046,955 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits: | | |
| Noninterest bearing deposits | \$ 40,384,760 | \$ 42,584,120 |
| Interest bearing deposits | 326,897,591 | 324,421,205 |
| Total deposits | 367,282,351 | 367,005,325 |
| Federal Home Loan Bank borrowings | 18,000,000 | 8,000,000 |
| Subordinated debt | 8,248,000 | 8,248,000 |
| Accrued expenses and other liabilities | 2,140,962 | 2,037,196 |
| Total liabilities | 395,671,313 | 385,290,521 |
| Shareholders' equity | | |
| Preferred stock: 1,000,000 shares authorized; no shares issued | | |
| Common stock, \$2 par value: 30,000,000 shares authorized; shares issued and outstanding: 2005 - 2,489,391; 2004 - 2,486,391 | 4,978,782 | 4,972,782 |
| Additional paid-in capital | 11,854,503 | 11,830,173 |
| Retained earnings | 3,798,290 | 3,346,718 |
| Accumulated other comprehensive loss - net unrealized loss on available for sale securities, net of taxes | (570,028) | (393,239) |
| Total shareholders' equity | 20,061,547 | 19,756,434 |
| Total liabilities and shareholders' equity | \$ 415,732,860 | \$ 405,046,955 |

See accompanying notes to consolidated financial statements.

PATRIOT NATIONAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Interest and Dividend Income | | | | |
| Interest and fees on loans | \$ 4,921,926 | \$ 3,602,676 | \$ 9,592,192 | \$ 7,129,431 |
| Interest and dividends on investment securities | 811,418 | 683,246 | 1,668,984 | 1,448,466 |
| Interest on federal funds sold | 75,702 | 25,154 | 142,326 | 40,810 |
| Total interest and dividend income | 5,809,046 | 4,311,076 | 11,403,502 | 8,618,707 |
| Interest Expense | | | | |
| Interest on deposits | 2,036,184 | 1,410,737 | 4,028,345 | 2,836,427 |
| Interest on Federal Home Loan Bank borrowings | 151,419 | 100,376 | 223,462 | 202,700 |
| Interest on subordinated debt | 127,633 | 87,655 | 243,343 | 175,903 |
| Interest on other borrowings | - | 14,731 | - | 38,566 |
| Total interest expense | 2,315,236 | 1,613,499 | 4,495,150 | 3,253,596 |
| Net interest income | 3,493,810 | 2,697,577 | 6,908,352 | 5,365,111 |
| Provision for Loan Losses | 100,000 | 60,000 | 360,000 | 220,000 |
| Net interest income after provision for loan losses | 3,393,810 | 2,637,577 | 6,548,352 | 5,145,111 |
| Noninterest Income | | | | |
| Mortgage brokerage referral fees | 511,658 | 517,810 | 975,457 | 1,013,429 |
| Loan processing fees | 104,812 | 121,676 | 183,343 | 241,085 |
| Fees and service charges | 156,481 | 113,790 | 284,402 | 214,721 |
| Other income | 47,930 | 22,563 | 88,693 | 58,107 |
| Total noninterest income | 820,881 | 775,839 | 1,531,895 | 1,527,342 |
| Noninterest Expenses | | | | |
| Salaries and benefits | 2,209,904 | 1,866,165 | 4,258,896 | 3,663,778 |
| Occupancy and equipment expenses, net | 492,102 | 378,722 | 985,316 | 760,139 |
| Data processing and other outside services | 244,027 | 204,901 | 484,267 | 401,061 |
| Professional services | 127,581 | 110,683 | 263,292 | 211,102 |
| Advertising and promotional expenses | 113,388 | 106,964 | 223,748 | 219,375 |
| Loan administration and processing expenses | 61,342 | 66,095 | 105,673 | 131,755 |
| Other noninterest expenses | 376,251 | 278,367 | 686,779 | 548,618 |
| Total noninterest expenses | 3,624,595 | 3,011,897 | 7,007,971 | 5,935,828 |
| Income before income taxes | 590,096 | 401,519 | 1,072,276 | 736,625 |
| Provision for Income Taxes | 239,000 | 162,000 | 434,000 | 301,000 |
| Net income | \$ 351,096 | \$ 239,519 | \$ 638,276 | \$ 435,625 |
| Basic income per share | \$ 0.14 | \$ 0.10 | \$ 0.26 | \$ 0.18 |
| Diluted income per share | \$ 0.14 | \$ 0.10 | \$ 0.25 | \$ 0.17 |
| Dividends per share | \$ 0.040 | \$ 0.035 | \$ 0.075 | \$ 0.065 |

See accompanying notes to consolidated financial statements.

PATRIOT NATIONAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------------------|------------------------------|---------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net income | \$ 351,096 | \$ 239,519 | \$ 638,276 | \$ 435,625 |
| Unrealized holding gains (losses) on securities: | | | | |
| Unrealized holding gains (losses) arising during the period, net of taxes | 359,644 | (887,552) | (176,789) | (549,747) |
| Comprehensive (loss) income | \$ 710,740 | \$ (648,033) | \$ 461,487 | \$ (114,122) |

See accompanying notes to consolidated financial statements.

PATRIOT NATIONAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|---------------------|
| | 2005 | 2004 |
| Cash Flows from Operating Activities | | |
| Net income | \$ 638,276 | \$ 435,625 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization and accretion of investment premiums and discounts, net | 190,193 | 284,181 |
| Provision for loan losses | 360,000 | 220,000 |
| Depreciation and amortization | 283,349 | 263,102 |
| (Gain) loss on disposal of premises and equipment | (12) | 3,804 |
| Changes in assets and liabilities: | | |
| (Decrease) increase in deferred loan fees | (72,531) | 85,988 |
| Increase in accrued interest receivable | (190,286) | (79,567) |
| Increase in other assets | (185,966) | (2,380) |
| Increase (decrease) in accrued expenses and other liabilities | 91,215 | (506,543) |
| Net cash provided by operating activities | 1,114,238 | 704,210 |
| Cash Flows from Investing Activities | | |
| Purchases of available for sale securities | (19,243,381) | (16,020,313) |
| Principal repayments on available for sale securities | 10,225,465 | 12,220,889 |
| Proceeds from maturities of available for sale securities | 1,000,000 | 3,000,000 |
| Purchase of Federal Home Loan Bank Stock | - | (219,400) |
| Purchase of Federal Reserve Bank Stock | (600) | (1,450) |
| Net increase in loans | (37,072,576) | (11,685,403) |
| Purchases of premises and equipment | (642,594) | (720,242) |
| Net cash used in investing activities | (45,733,686) | (13,425,919) |
| Cash Flows from Financing Activities | | |
| Net (decrease) increase in demand, savings and money market deposits | (5,278,675) | 14,893,203 |
| Net increase in time certificates of deposits | 5,555,699 | 575,081 |
| Proceeds from FHLB borrowings | 31,001,000 | 11,000,000 |
| Principal repayments of FHLB borrowings | (21,001,000) | (9,000,000) |
| Decrease in securities sold under agreements to repurchase | - | (5,700,000) |
| Decrease in other borrowings | - | (127,067) |
| Dividends paid on common stock | (174,153) | (144,965) |
| Proceeds from issuance of common stock | 30,330 | 199,500 |
| Net cash provided by financing activities | 10,133,201 | 11,695,752 |
| Net (decrease) in cash and cash equivalents | (34,486,244) | (1,025,957) |
| Cash and cash equivalents | | |
| Beginning | 55,630,466 | 29,454,671 |
| Ending | \$ 21,144,222 | \$ 28,428,714 |

PATRIOT NATIONAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
(Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|--------------|
| | 2005 | 2004 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash paid for: | | |
| Interest | \$ 4,484,662 | \$ 3,262,177 |
| Income Taxes | \$ 487,914 | \$ 420,120 |
| Supplemental disclosure of noncash investing and financing activities: | | |
| Unrealized holding loss on available for sale securities arising during the period | \$ (285,144) | \$ (886,690) |
| Accrued dividends declared on common stock | \$ 99,576 | \$ 85,465 |

See accompanying notes to consolidated financial statements.

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PATRIOT NATIONAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2004 has been derived from the audited financial statements of Patriot National Bancorp, Inc. ("Bancorp") at that date, but does not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements.

The accompanying unaudited financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U. S. generally accepted accounting principles have been omitted. The accompanying consolidated financial statements and related notes should be read in conjunction with the audited financial statements of Bancorp and notes thereto for the year ended December 31, 2004.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of the results of operations that may be expected for the remaining quarters of 2005.

Note 2. Investments

The following table is a summary of Bancorp's available for sale securities portfolio, at fair value at June 30, 2005:

| | |
|--|---------------|
| U. S. Government agency and sponsored agency obligations | \$ 14,748,105 |
| Mortgage-backed securities | 61,063,949 |
| Money market preferred equity securities | 8,000,000 |
| Total Investments | \$ 83,812,054 |

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The amortized cost, gross unrealized gains, gross unrealized losses and fair values of available for sale securities at June 30, 2005 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| U.S. Government Agency and sponsored agency obligations | \$ 15,000,000 | \$ - | \$ (251,895) | \$ 14,748,105 |
| Mortgage-backed securities | 61,731,453 | 52,890 | (720,394) | 61,063,949 |
| Money market preferred equity securities | 8,000,000 | - | - | 8,000,000 |
| | \$ 84,731,453 | \$ 52,890 | \$ (972,289) | \$ 83,812,054 |

At June 30, 2005, gross unrealized holding gains and gross unrealized holding losses on available for sale securities totaled \$52,890 and \$972,289, respectively. Of the securities with unrealized losses, there are five U. S. Government Agency or Sponsored Agency Obligations and 13 mortgage backed securities that have unrealized losses for a period in excess of twelve months with a combined current unrealized loss of \$816,000. Management does not believe that any of the unrealized losses are other than temporary since they are the result of changes in the interest rate environment and they relate to debt and mortgage-backed securities issued by U. S. Government and U.S. Government sponsored agencies. Bancorp has the ability to hold these securities to maturity if necessary and expects to receive all contractual principal and interest related to these investments. As a result, management believes that these unrealized losses will not have a negative impact on future earnings or a permanent effect on capital.

Note 3. Loans

The following table is a summary of Bancorp's loan portfolio at June 30, 2005.

| | |
|-----------------------------|----------------|
| Real Estate | |
| Commercial | \$ 122,600,044 |
| Residential | 51,525,372 |
| Construction | 80,619,862 |
| Commercial | 19,135,880 |
| Consumer installment | 1,283,178 |
| Consumer home equity | 29,928,558 |
| Total Loans | 305,092,894 |
| Premiums on purchased loans | 453,582 |
| Net deferred fees | (1,045,024) |
| Allowance for loan losses | (3,841,525) |
| Total Loans | \$ 300,659,927 |

Note 4. Deposits

The following table is a summary of Bancorp's deposits at June 30, 2005.

| | |
|--|----------------|
| Noninterest bearing | \$ 40,384,760 |
| Interest bearing | |
| NOW | 27,614,302 |
| Savings | 22,521,113 |
| Money market | 68,154,708 |
| Time certificates, less than \$100,000 | 132,873,833 |
| Time certificates, \$100,000 or more | 75,733,635 |
| Total interest bearing | 326,897,591 |
| Total Deposits | \$ 367,282,351 |

Note 5. Borrowings

In addition to the outstanding borrowings disclosed on the consolidated balance sheet, the Bank has the ability to borrow approximately \$66.9 million in additional advances from the Federal Home Loan Bank of Boston which includes a \$2.0 million overnight line of credit. The Bank also has arranged a \$3.0 million overnight line of credit from a correspondent bank and \$10.0 million under a repurchase agreement; no amounts were outstanding under these two arrangements at June 30, 2005.

Note 6. Income per share

Bancorp is required to present basic income per share and diluted income per share in its income statements. Basic income per share amounts are computed by dividing net income by the weighted average number of common shares outstanding. Diluted income per share assumes exercise of all potential common stock in weighted average shares outstanding, unless the effect is antidilutive. Bancorp is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted income per share. The following is information about the computation of income per share for the three and six months ended June 30, 2005 and 2004.

Quarter ended June 30, 2005

| | Net Income | Shares | Amount |
|---|------------|-----------|---------|
| Basic Income Per Share | | | |
| Income available to common shareholders | \$ 351,096 | 2,489,391 | \$ 0.14 |
| Effect of Dilutive Securities | | | |
| Warrants/Stock Options outstanding | - | 50,364 | |