

PATRIOT NATIONAL BANCORP INC
Form 10QSB
August 12, 2004

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,
2004

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, 2,467,141 shares issued and outstanding as of the close of business July 31, 2004.

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

Table of Contents

| | <u>Page</u> |
|--|--------------------|
| <u>Part I</u> FINANCIAL INFORMATION | |
| Item 1. Consolidated Financial Statements | 3 |
| Item 2. Management's Discussion and Analysis or Plan of Operation | 13 |
| Item 3. Controls and Procedures | 22 |
| <u>Part II</u> OTHER INFORMATION | |
| Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities | 23 |
| Item 4. Submission of Matters to a Vote of Security Holders | 27 |
| Item 6. Exhibits and Reports on Form 8-K | 28 |

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

| | June 30, 2004 | December 31, 2003 |
|---|-----------------------|-----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Cash and due from banks | \$ 5,413,689 | \$ 4,023,732 |
| Federal funds sold | 18,800,000 | 15,000,000 |
| Short term investments | 4,215,025 | 10,430,939 |
| Cash and cash equivalents | 28,428,714 | 29,454,671 |
| Available for sale securities (at fair value) | 90,190,636 | 90,562,083 |
| Federal Reserve Bank stock | 692,600 | 691,150 |
| Federal Home Loan Bank stock | 1,296,700 | 1,077,300 |
| Loans receivable (net of allowance for loan losses: 2004 \$3,154,675; 2003 \$2,934,675) | 225,799,943 | 214,420,528 |
| Accrued interest receivable | 1,550,189 | 1,470,622 |
| Premises and equipment, net | 1,874,434 | 1,421,098 |
| Deferred tax asset, net | 1,861,068 | 1,524,125 |
| Goodwill | 930,091 | 930,091 |
| Other assets | 919,761 | 917,381 |
| Total assets | \$ 353,544,136 | \$ 342,469,049 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits: | | |
| Noninterest bearing deposits | \$ 40,512,076 | \$ 30,477,295 |
| Interest bearing deposits | 264,948,390 | 259,514,887 |
| Total deposits | 305,460,466 | 289,992,182 |
| Securities sold under agreements to repurchase | - | 5,700,000 |
| Federal Home Loan Bank borrowings | 19,000,000 | 17,000,000 |
| Subordinated debt | 8,248,000 | 8,248,000 |
| Other borrowings | 226,318 | 353,385 |
| Accrued expenses and other liabilities | 1,902,233 | 2,395,569 |
| Total liabilities | 334,837,017 | 323,689,136 |
| Shareholders' equity | | |
| Common stock, \$2 par value: 5,333,333 shares authorized; shares issued and outstanding: 2004 - 2,441,857; 2003 - 2,408,607 | 4,883,714 | 4,817,214 |
| Additional paid-in capital | 11,652,037 | 11,519,037 |

Edgar Filing: PATRIOT NATIONAL BANCORP INC - Form 10QSB

| | | |
|---|-----------------------|-----------------------|
| Retained earnings | 3,029,994 | 2,752,541 |
| Accumulated other comprehensive loss □ net unrealized loss on available for sale securities, net of tax | (858,626) | (308,879) |
| Total shareholders' equity | 18,707,119 | 18,779,913 |
| Total liabilities and shareholders' equity | \$ 353,544,136 | \$ 342,469,049 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Interest and Dividend Income | | | | |
| Interest and fees on loans | \$ 3,602,676 | \$ 3,040,352 | \$ 7,129,431 | \$ 5,938,354 |
| Interest and dividends on investment securities | 683,246 | 484,031 | 1,448,466 | 1,008,246 |
| Interest on federal funds sold | 25,154 | 45,756 | 40,810 | 56,756 |
| Total interest and dividend income | 4,311,076 | 3,570,139 | 8,618,707 | 7,003,356 |
| Interest Expense | | | | |
| Interest on deposits | 1,410,737 | 1,169,853 | 2,836,427 | 2,231,746 |
| Interest on Federal Home Loan Bank borrowings | 100,376 | 79,423 | 202,700 | 127,373 |
| Interest on subordinated debt | 87,655 | 90,890 | 175,903 | 95,791 |
| Interest on other borrowings | 14,731 | 35,368 | 38,566 | 76,926 |
| Total interest expense | 1,613,499 | 1,375,534 | 3,253,596 | 2,531,836 |
| Net interest income | 2,697,577 | 2,194,605 | 5,365,111 | 4,471,520 |
| Provision for Loan Losses | 60,000 | 90,000 | 220,000 | 255,000 |
| Net interest income after provision for loan losses | | | | 2,637,577 |
| | | | | 2,104,605 |
| | | | | 5,145,111 |
| | | | | 4,216,520 |

Non-Interest Income

| | |
|---------------------------------------|-----------|
| Mortgage brokerage referral fees | 517,810 |
| | 961,489 |
| | 1,013,429 |
| | 1,894,272 |
| Loan processing fees | 121,676 |
| | 225,056 |
| | 241,085 |
| | 403,804 |
| Fees and service charges | 113,790 |
| | 87,240 |
| | 214,721 |
| | 157,667 |
| Gain on sale of investment securities | - |
| | 182,575 |
| | - |
| | 307,739 |
| Other income | 22,563 |
| | 21,468 |
| | 58,107 |

56,936

Total non-interest income

775,839

1,477,828

1,527,342

2,820,418

Non-Interest Expenses

Salaries and benefits

1,866,165

1,944,294

3,663,778

3,831,882

Occupancy and equipment expenses, net

378,722

328,284

Edgar Filing: PATRIOT NATIONAL BANCORP INC - Form 10QSB

| | |
|---|---------|
| | 760,139 |
| | 598,708 |
| Data processing and other outside services | |
| | 204,901 |
| | 166,269 |
| | 401,061 |
| | 358,506 |
| Professional services | |
| | 110,683 |
| | 87,577 |
| | 211,102 |
| | 177,242 |
| Advertising and promotional expenses | |
| | 106,964 |
| | 85,952 |
| | 219,375 |
| | 155,274 |
| Loan administration and processing expenses | |
| | 66,095 |
| | 133,304 |
| | 131,755 |
| | 237,847 |
| Other non-interest expenses | |
| | 278,367 |
| | 260,528 |
| | 548,618 |
| | 502,744 |

Total non-interest expenses

3,011,897

3,006,208

5,935,828

5,862,203

Income before income taxes

401,519

576,225

736,625

1,174,735

Provision for Income Taxes

162,000

227,000

301,000

460,000

Net income

| | |
|----|---------|
| \$ | 239,519 |
| \$ | 349,225 |
| \$ | 435,625 |
| \$ | 714,735 |

Basic income per share

| | |
|----|------|
| \$ | 0.10 |
| \$ | 0.15 |
| \$ | 0.18 |
| \$ | 0.30 |

Diluted income per share

| | |
|----|------|
| \$ | 0.10 |
|----|------|

| | |
|----|------|
| \$ | 0.14 |
| \$ | 0.17 |
| \$ | 0.29 |

Dividends per share

| | |
|----|-------|
| \$ | 0.035 |
| \$ | 0.030 |
| \$ | 0.065 |
| \$ | 0.055 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------------------|------------------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income | \$ 239,519 | \$ 349,225 | \$ 435,625 | \$ 714,735 |
| Unrealized holding losses on securities: | | | | |
| Unrealized holding losses arising during the period, net of taxes | (887,552) | (130,739) | (549,747) | (315,227) |
| Comprehensive (loss) income | \$ (648,033) | \$ 218,486 | \$ (114,122) | \$ 399,508 |

See accompanying notes to consolidated financial statements.

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

| | Six Months Ended June 30, | |
|---|------------------------------|---------------------|
| | 2004 | 2003 |
| Cash Flows from Operating Activities | | |
| Net income | \$ 435,625 | \$ 714,735 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization and accretion of investment premiums and discounts, net | 284,181 | 239,259 |
| Provision for loan losses | 220,000 | 255,000 |
| Gain on sale of investment securities | - | (307,739) |
| Depreciation and amortization | 263,102 | 177,520 |
| Loss on disposal of bank premises and equipment | 3,804 | 2,037 |
| Changes in assets and liabilities: | | |
| Increase in deferred loan fees | 85,988 | 81,310 |
| (Increase) decrease in accrued interest receivable | (79,567) | 77,625 |
| Increase in other assets | (2,380) | (230,233) |
| Decrease in accrued expenses and other liabilities | (506,543) | (72,669) |
| Net cash provided by operating activities | 704,210 | 936,845 |
| Cash Flows from Investing Activities | | |
| Purchases of available for sale securities | (16,020,313) | (35,642,429) |
| Proceeds from sales of available for sale securities | - | 7,094,321 |
| Principal repayments on available for sale securities | 12,220,889 | 11,353,924 |
| Proceeds from maturities of available for sale securities | 3,000,000 | 6,200,000 |
| Purchase of Federal Home Loan Bank Stock | (219,400) | (456,000) |
| Purchase of Federal Reserve Bank Stock | (1,450) | (210,100) |
| Net increase in loans | (11,685,403) | (13,140,932) |
| Purchases of bank premises and equipment | (720,242) | (598,343) |
| Proceeds from sale of bank premises and equipment | - | 6,900 |
| Investment in trust | - | (248,000) |
| Net cash used in investing activities | (13,425,919) | (25,640,659) |
| Cash Flows from Financing Activities | | |
| Net increase (decrease) in demand, savings and money market deposits | 14,893,203 | (468,360) |
| Net increase in time certificates of deposits | 575,081 | 30,864,489 |
| Proceeds from FHLB borrowings | 11,000,000 | 10,000,000 |
| Principal repayments of FHLB borrowings | (9,000,000) | - |
| Decrease in securities sold under agreements to repurchase | (5,700,000) | - |
| Proceeds from issuance of subordinated debt | - | 8,248,000 |
| Decrease in other borrowings | (127,067) | (117,282) |
| Dividends paid on common stock | (144,965) | (120,037) |
| Proceeds from issuance of common stock | 199,500 | 1,200 |

Edgar Filing: PATRIOT NATIONAL BANCORP INC - Form 10QSB

| | | |
|---|--------------------|-------------------|
| Net cash provided by financing activities | 11,695,752 | 48,408,010 |
| Net (decrease) increase in cash and cash equivalents | (1,025,957) | 23,704,196 |
| Cash and cash equivalents | | |
| Beginning | 29,454,671 | 11,734,725 |
| Ending | \$ 28,428,714 | \$ 35,438,921 |

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

| | Six Months Ended June 30, | |
|--|------------------------------|--------------|
| | 2004 | 2003 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash paid for: | | |
| Interest | \$ 3,262,177 | \$ 2,447,679 |
| Income Taxes | \$ 420,120 | \$ 607,703 |
| Supplemental disclosure of noncash investing and financing activities: | | |
| Unrealized holding loss on available for sale securities arising during the period | \$ (886,690) | \$ (508,431) |
| Liability for security purchased but not settled | \$ - | \$ 5,091,286 |
| Accrued dividends declared on common stock | \$ 85,465 | \$ 72,022 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

- (1) The Consolidated Balance Sheet at December 31, 2003 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 accounting principles generally accepted in the United States of America for complete financial statements.
- (2) 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 accounting principles generally accepted in the United States of America 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, 2003.

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, 2004 are not necessarily indicative of the results of operations that may be expected for all of 2004.

- (3) 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, 2004 and 2003.

Quarter ended June 30, 2004

| | Net Income | Shares | Amount |
|--|------------|-----------|---------|
| Basic Income Per Share | | | |
| Income available to common shareholders | \$ 239,519 | 2,430,399 | \$ 0.10 |
| Effect of Dilutive Securities | | | |
| Warrants/Stock Options outstanding | - | 64,128 | - |
| Diluted Income Per Share | | | |
| Income available to common shareholders plus assumed conversions | \$ 239,519 | 2,494,527 | \$ 0.10 |

Edgar Filing: PATRIOT NATIONAL BANCORP INC - Form 10QSB

Quarter ended June 30, 2003

| | Net Income | Shares | Amount |
|---|------------|-----------|---------|
| Basic Income Per Share | | | |
| Income available to common shareholders | \$ 349,225 | 2,400,725 | \$ 0.15 |
| Effect of Dilutive Securities | | | |
| Warrants/Stock Options outstanding | - | 35,137 | (0.01) |

| | | | |
|--|------------|-----------|---------|
| Diluted Income Per Share | | | |
| Income available to common shareholders plus assumed conversions | \$ 349,225 | 2,435,862 | \$ 0.14 |

Six months ended June 30, 2004

| | Net Income | Shares | Amount |
|---|------------|-----------|---------|
| Basic Income Per Share | | | |
| Income available to common shareholders | \$ 435,625 | 2,421,071 | \$ 0.18 |
| Effect of Dilutive Securities | | | |
| Warrants/Stock Options outstanding | - | 71,128 | (0.01) |

| | | | |
|--|------------|-----------|---------|
| Diluted Income Per Share | | | |
| Income available to common shareholders plus assumed conversions | \$ 435,625 | 2,492,199 | \$ 0.17 |

Six months ended June 30, 2003

| | Net Income | Shares | Amount |
|---|------------|-----------|---------|
| Basic Income Per Share | | | |
| Income available to common shareholders | \$ 714,735 | 2,400,725 | \$ 0.30 |
| Effect of Dilutive Securities | | | |
| Warrants/Stock Options outstanding | - | 35,986 | (0.01) |

| | | | |
|--|------------|-----------|---------|
| Diluted Income Per Share | | | |
| Income available to common shareholders plus assumed conversions | \$ 714,735 | 2,436,711 | \$ 0.29 |

- (4) Bancorp has two reportable segments, the commercial bank and the mortgage broker. The commercial bank provides its commercial customers with products such as commercial mortgage and construction loans, working capital loans, equipment loans and other business financing arrangements, and provides its

consumer customers with residential mortgage loans, home equity loans and other consumer installment loans. The commercial bank segment also attracts deposits from both consumer and commercial customers, and invests such deposits in loans, investments and working capital. The commercial bank's revenues are generated primarily from net interest income from its lending, investment and deposit activities.

The mortgage broker solicits and processes conventional mortgage loan applications from consumers on behalf of permanent investors and originates loans for sale. Revenues are generated from loan brokerage and application processing fees received from permanent investors and gains and origination fees from loans sold.

Information about reportable segments and a reconciliation of such information to the consolidated financial statements for the three months and six months ended June 30, 2004 and 2003 is as follows (in thousands):

Quarter ended June 30, 2004

| | Bank | | Mortgage Broker | | Consolidated Totals |
|----------------------------|----------|----|--------------------|----|------------------------|
| Net interest income | \$ 2,698 | \$ | - | \$ | 2,698 |
| Non-interest income | 169 | | 607 | | 776 |
| Non-interest expense | 2,389 | | 623 | | 3,012 |
| Provision for loan losses | 60 | | - | | 60 |
| Income (loss) before taxes | 418 | | (16) | | 402 |
| Assets at period end | 352,456 | | 1,088 | | 353,544 |

Quarter ended June 30, 2003

| | Bank | | Mortgage Broker | | Consolidated Totals |
|---------------------------|----------|----|--------------------|----|------------------------|
| Net interest income | \$ 2,195 | \$ | - | \$ | 2,195 |
| Non-interest income | 303 | | 1,175 | | 1,478 |
| Non-interest expense | 2,071 | | 935 | | 3,006 |
| Provision for loan losses | 90 | | - | | 90 |
| Income before taxes | 336 | | 240 | | 576 |
| Assets | 301,067 | | 1,008 | | 302,075 |

Six months ended June 30, 2004

| | Bank | | Mortgage Broker | | Consolidated Totals |
|----------------------------|----------|----|--------------------|----|------------------------|
| Net interest income | \$ 5,365 | \$ | - | \$ | 5,365 |
| Non-interest income | 329 | | 1,198 | | 1,527 |
| Non-interest expense | 4,662 | | 1,274 | | 5,936 |
| Provision for loan losses | 220 | | - | | 220 |
| Income (loss) before taxes | 812 | | (76) | | 736 |
| Assets at period end | 352,456 | | 1,088 | | 353,544 |

Six months ended June 30, 2003

| | Bank | | Mortgage Broker | | Consolidated Totals |
|---------------------------|----------|----|--------------------|----|------------------------|
| Net interest income | \$ 4,472 | \$ | - | \$ | 4,472 |
| Non-interest income | 546 | | 2,274 | | 2,820 |
| Non-interest expense | 4,042 | | 1,820 | | 5,862 |
| Provision for loan losses | 255 | | - | | 255 |
| Income before taxes | 721 | | 454 | | 1,175 |
| Assets | 301,067 | | 1,008 | | 302,075 |

- (5) Certain 2003 amounts have been reclassified to conform to the 2004 presentation. Such reclassifications had no effect on net income.

- (6) Other comprehensive income, which is comprised solely of the change in unrealized gains and losses on available for sale securities, is as follows:

| | Three Months Ended | | | Six Months Ended | | |
|---|----------------------|---------------|----------------------|----------------------|---------------|----------------------|
| | June 30, 2004 | | | June 30, 2004 | | |
| | Before Tax Amount | Tax Effect | Net of Tax Amount | Before Tax Amount | Tax Effect | Net of Tax Amount |
| Unrealized holding loss arising during the period | | | | | | |
| \$ | | | | | | (1,431,536) |
|) | | | | | | |
| \$ | | | | | | 543,984 |
| \$ | | | | | | (887,552) |
|) | | | | | | |
| \$ | | | | | | (886,690) |
|) | | | | | | |
| \$ | | | | | | 336,943 |
|) | | | | | | |
| \$ | | | | | | (549,747) |
|) | | | | | | |

Reclassification adjustment for gains recognized in income

-
-
-
-
-

Unrealized holding loss on available for sale securities, net of taxes

| | | | | | | | | | |
|----|--|--|--|--|--|--|--|--|-------------|
| \$ | | | | | | | | | |
|) | | | | | | | | | (1,431,536) |
| \$ | | | | | | | | | 543,984 |
| \$ | | | | | | | | | (887,552) |
|) | | | | | | | | | (886,690) |
| \$ | | | | | | | | | 336,943 |
| \$ | | | | | | | | | (549,747) |
|) | | | | | | | | | |

| Three Months Ended June 30, 2003 | | | Six Months Ended June 30, 2003 | | |
|-------------------------------------|---------------|----------------------|-----------------------------------|---------------|----------------------|
| Before Tax Amount | Tax Effect | Net of Tax Amount | Before Tax Amount | Tax Effect | Net of Tax Amount |

Unrealized holding loss arising during the period

| | | | | | | | | | |
|----|--|--|--|--|--|--|--|--|-----------|
| \$ | | | | | | | | | |
|) | | | | | | | | | (28,295) |
| \$ | | | | | | | | | 10,752 |
| \$ | | | | | | | | | (17,543) |
|) | | | | | | | | | (200,692) |
| \$ | | | | | | | | | 76,263 |
| \$ | | | | | | | | | (124,429) |
|) | | | | | | | | | |

Reclassification adjustment for gains recognized in income

| | |
|---|----------|
|) | (182,575 |
|) | 69,379 |
|) | (113,196 |
|) | (307,739 |
|) | 116,941 |
|) | (190,798 |

Unrealized holding loss on available for sale securities, net of taxes

| | |
|----|----------|
| \$ | (210,870 |
|) | |
| \$ | 80,131 |
| \$ | (130,739 |
|) | |
| \$ | (508,431 |
|) | |
| \$ | 193,204 |
| \$ | (315,227 |
|) | |

(7) The amortized cost, gross unrealized gains, gross unrealized losses and fair values of available for sale securities at June 30, 2004 are as follows:

| Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-------------------|------------------------------|-------------------------------|---------------|
|-------------------|------------------------------|-------------------------------|---------------|

Edgar Filing: PATRIOT NATIONAL BANCORP INC - Form 10QSB

| | | | | | | | | |
|------------------------|----|------------|----|--------|----|-------------|----|------------|
| U.S. Government | | | | | | | | |
| Agency Obligations | \$ | 16,000,000 | \$ | 1,562 | \$ | (368,921) | \$ | 15,632,641 |
| Mortgage Backed | | | | | | | | |
| Securities | | 64,575,516 | | 53,986 | | (1,071,507) | | 63,557,995 |
| Money Market Preferred | | | | | | | | |
| Equity Securities | | 11,000,000 | | - | | - | | 11,000,000 |
| <hr/> | | | | | | | | |
| | \$ | 91,575,516 | \$ | 55,548 | \$ | (1,440,428) | \$ | 90,190,636 |
| <hr/> | | | | | | | | |

At June 30, 2004, gross unrealized holding gains and gross unrealized holding losses on available for sale securities totaled \$55,548 and \$1,440,428, respectively. Of the securities with unrealized losses, there is one mortgage backed security that has had unrealized losses for a period in excess of twelve months with a current unrealized loss of \$179,921. Management does not believe that any of the unrealized losses are other than temporary as they relate to debt and mortgage-backed securities issued by U.S. Government and U.S. Government sponsored agencies resulting from changes in the interest rate environment. 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.

- (8) Pursuant to FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities," issued in December 2003, the Company deconsolidated Patriot National Statutory Trust I (the "Trust"), of which the Company owns 100% of the Trust's common securities, on December 31, 2003. As a result, the Statement of Cash Flows for the six months ended June 30, 2003, which previously presented the issuance of trust-preferred securities of \$8,000,000, has been restated to separately present the issuance of \$8,248,000 of subordinated debentures by the Company, and the Company's \$248,000 investment in the Trust.

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

(a) *Plan of Operation*

Not applicable since Bancorp had revenues from operations in each of the last two fiscal years.

(b) *Management's Discussion and Analysis of Financial Condition and Results of Operations*

SUMMARY

Bancorp had net income of \$240,000 (\$0.10 basic income per share and \$0.10 diluted income per share) for the quarter ended June 30, 2004, compared to net income of \$349,000 (\$0.15 basic income per share and \$0.14 diluted income per share) for the quarter ended June 30, 2003. For the six-month period ended June 30, 2004, net income was \$436,000 (\$0.18 basic income per share and \$0.17 diluted income per share) as compared to net income of \$715,000 (\$0.30 basic income per share and \$0.29 diluted income per share) for the six months ended June 30, 2003.

Total assets increased \$11.0 million from \$342.5 million at December 31, 2003 to \$353.5 million at June 30, 2004. Cash and cash equivalents decreased \$1.0 million to \$28.4 million at June 30, 2004 from \$29.4 million at December 31, 2003. The available for sale securities portfolio decreased \$371,000 to \$90.2 million at June 30, 2004 from \$90.6 million at December 31, 2003. The net loan portfolio increased \$11.4 million from \$214.4 million at December 31, 2003 to \$225.8 million at June 30, 2004. Deposits increased \$15.5 million to \$305.5 million at June 30, 2004 from \$290.0 million at December 31, 2003. Borrowings decreased \$3.8 million to \$27.5 million at June 30, 2004 from \$31.3 million at December 31, 2003.

FINANCIAL CONDITON

Assets

Bancorp's total assets increased \$11.0 million or 3.2% from \$342.5 million at December 31, 2003 to \$353.5 million at June 30, 2004. Cash and cash equivalents decreased \$1.0 million to \$28.4 million at June 30, 2004 as compared to \$29.4 million at December 31, 2003. Cash and due from banks increased \$1.4 million; federal funds sold increased \$3.8 million and short term investments decreased \$6.2 million.

Investments

The following table is a summary of Bancorp's available for sale securities portfolio, at fair value, at the dates shown:

| | June 30, 2004 | December 31, 2003 |
|---|----------------------|----------------------|
| U. S. Government Agency Obligations | \$ 15,632,641 | \$ 11,865,618 |
| Mortgage Backed Securities | 63,557,995 | 66,696,465 |
| Money Market Preferred Equity Securities | 11,000,000 | 12,000,000 |
| Total Investments | \$ 90,190,636 | \$ 90,562,083 |

Available for sale securities decreased \$371,000 from \$90.6 million at December 31, 2003 to \$90.2 million at June 30, 2004. This net decrease represents the excess of mortgage backed principal repayments and called securities combined with the increase in net unrealized losses over the purchase of additional government sponsored agency bonds.

Loans

The following table is a summary of Bancorp's loan portfolio at the dates shown:

| | June 30, 2004 | December 31, 2003 |
|---------------------------|-----------------------|-----------------------|
| Real Estate | | |
| Commercial | \$ 102,936,583 | \$ 96,339,220 |
| Residential | 19,782,620 | 21,772,759 |
| Construction | 63,628,935 | 57,122,445 |
| Commercial | 15,256,431 | 15,532,902 |
| Consumer installment | 1,428,206 | 1,861,924 |
| Consumer home equity | 26,889,653 | 25,607,775 |
| Total Loans | 229,922,428 | 218,237,025 |
| Net deferred fees | (967,810) | (881,822) |
| Allowance for loan losses | (3,154,675) | (2,934,675) |
| Total Loans | \$ 225,799,943 | \$ 214,420,528 |

Bancorp's net loan portfolio increased \$11.4 million or 5.3% from \$214.4 million at December 31, 2003 to \$225.8 million at June 30, 2004. Increases in commercial real estate loans of \$6.6 million, construction loans of \$6.5 million and consumer home equity loans of \$1.3 million were partially offset by decreases in residential real estate loans of \$1.9 million

and consumer installment and commercial loans of \$434,000 and \$276,000, respectively. A favorable interest rate environment for borrowers combined with a strong real estate market continues to contribute to the overall growth in the loan portfolio.

At June 30, 2004, the net loan to deposit ratio was 73.9% and the net loan to total assets ratio was 63.9%. At December 31, 2003, the net loan to deposit ratio was 73.9% and the net loan to total assets ratio was 62.6%. Based on continued loan demand, loan applications in process and the planned hiring of additional loan officers, management anticipates continued loan growth during the remainder of 2004.

Critical Accounting Policies

In the ordinary course of business, Bancorp has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses Bancorp's only critical accounting policy, which is the policy that is most important to the presentation of Bancorp's financial results and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Allowance for Loan Losses

The allowance for loan losses, a material estimate susceptible to significant change in the near-term, is established as losses are estimated to have occurred through a provision for loan losses charged against operations and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on the evaluation of individual loans, the known and inherent risk characteristics and size of the loan portfolios, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan loss experience, review of regulatory authority examination reports and evaluations of specific loans and other relevant factors. The allowance for loan losses is maintained at a level that management believes is adequate to absorb probable losses on existing loans based on an evaluation of the collectibility of loans and prior loan loss experience.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. A risk rating system is utilized to measure the adequacy of the general component of the allowance for loan losses. Under this system, each loan is assigned a risk rating between one and nine, which has a corresponding loan loss factor assigned, with a rating of "one" being the least risk and a rating of "nine" reflecting the most risk or a complete loss. Risk ratings are assigned by the originating loan officer or loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loan loss reserve factors are multiplied against the balances in each risk rating category to arrive at the appropriate level for the allowance for loan losses. Loans assigned a risk rating of "six"

or above are monitored more closely by the credit administration officers. The unallocated portion

of the allowance reflects management's estimate of probable but undetected losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. Loan quality control is continually monitored by management subject to oversight by the board of directors through its members who serve on the loan committee and is also reviewed by the full board of directors on a monthly basis. The methodology for determining the adequacy of the allowance for loan losses is consistently applied; however, revisions may be made to the methodology and assumptions based on historical information related to charge-off and recovery experience and management's evaluation of the current loan portfolio.

Based upon this evaluation, management believes the allowance for loan losses of \$3.2 million at June 30, 2004, which represents 1.38% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2003, the allowance for loan losses was \$2.9 million or 1.35% of gross loans outstanding.

Analysis of Allowance for Loan Losses

| <i>(Thousands of dollars)</i> | 2004 | June 30, 2003 |
|---|----------|------------------|
| Balance at beginning of period | \$ 2,935 | \$ 2,373 |
| Charge-offs | - | (1) |
| Recoveries | - | - |
| Net (charge-offs) recoveries | - | (1) |
| Provision charged to operations | 220 | 255 |
| Balance at end of period | \$ 3,155 | \$ 2,627 |
| Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period. | (0.00%) | (0.00%) |

Non-Accrual, Past Due and Restructured Loans

The following table presents non-accruing and past due loans:

| <i>(Thousands of dollars)</i> | June 30, 2004 | December 31, 2003 |
|--|------------------|----------------------|
| Loans delinquent over 90 days still accruing | \$ 337 | \$ 165 |
| Non-accruing loans | 3,755 | 150 |
| Total | \$ 4,092 | \$ 315 |
| | | |
| % of Total Loans | 1.79% | 0.14% |
| % of Total Assets | 1.16% | 0.09% |

Potential Problem Loans

The \$3.8 million in non-accruing loans at June 30, 2004 is comprised of three loans that are well collateralized and in the process of collection.

At June 30, 2004, Bancorp had no loans, other than those disclosed in the table above, for which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

The following table is a summary of Bancorp's deposits at the dates shown:

| | June 30, 2004 | December 31, 2003 |
|--|-----------------------|-----------------------|
| Non-interest bearing | \$ 40,512,076 | \$ 30,477,295 |
| Interest bearing | | |
| Time certificates, less than \$100,000 | 92,413,655 | 92,574,784 |
| Time certificates, \$100,000 or more | 51,530,074 | 50,793,863 |
| Money market | 69,315,112 | 69,503,859 |
| Savings | 24,399,932 | 23,792,811 |
| NOW | 27,289,617 | 22,849,570 |
| Total interest bearing | 264,948,390 | 259,514,887 |
| Total Deposits | \$ 305,460,466 | \$ 289,992,182 |

Total deposits increased \$15.5 million or 5.3% from \$290.0 million at December 31, 2003 to \$305.5 million at June 30, 2004. Noninterest bearing deposits increased \$10.0 million or 32.9% due primarily to increases in official checks and commercial and consumer

demand deposit accounts. Interest bearing deposits increased \$5.4 million or 2.1%. NOW accounts increased \$4.4 million due primarily to increases in attorney escrow accounts; savings deposits and certificates of deposit increased \$607,000 and \$575,000, respectively. Due to the uncertainty in short term interest rates, many depositors have been keeping funds liquid which has resulted in the maintenance of high levels of money market fund accounts and minimal increases in certificates of deposit.

Borrowings

At June 30, 2004, total borrowings were \$27.5 million; this represents a decrease of \$3.8 million when compared to total borrowings of \$31.3 million at December 31, 2003. This decrease is due to the maturity and subsequent payoff of a securities sold under agreement to repurchase transaction of \$5.7 million partially offset by an increase in FHLB borrowings of \$2.0 million

Off-Balance Sheet Arrangements

There have been no significant changes in Bancorp's off-balance sheet arrangements during the quarter ended June 30, 2004.

RESULTS OF OPERATIONS

Interest and dividend income and expense

Bancorp's interest and dividend income increased \$741,000 or 20.8% for the quarter ended June 30, 2004 as compared to the same period in 2003. Interest and fees on loans increased 18.5% or \$562,000 from \$3.0 million for the quarter ended June 30, 2003 to \$3.6 million for the quarter ended June 30, 2004. These increases are the result of the increase in the investment and loan portfolios, net of decreases in the yields on interest earning assets. For the six months ended June 30, 2004, interest and dividend income was \$8.6 million which represents an increase of \$1.6 million or 23.1% as compared to interest and dividend income of \$7.0 million for the same period last year. This increase is due to the reasons cited earlier.

Bancorp's interest expense increased 17.3% or \$238,000 for the quarter ended June 30, 2004 as compared to the same period in 2003. Increases in interest bearing deposit accounts resulted in an increase of 20.6% or \$241,000 in interest expense for the quarter ended June 30, 2004 compared to the same period last year. Increases in outstanding Federal Home Loan Bank borrowings resulted in an increase of \$21,000 in interest expense for the quarter ended June 30, 2004 as compared to the same period in 2003. Lower volumes of other borrowings and a lower rate on subordinated debt for the three months ended June 30, 2004 as compared to 2003 partially offset the increase in interest expenses previously mentioned. For the six months ended June 30, 2004, total

interest expense increased \$722,000 or 28.5% to \$3.3 million from \$2.5 million for the six months ended June 30, 2003. These increases in interest expense are due to higher levels of interest bearing liabilities.

Non-interest income

Non-interest income decreased \$702,000 or 47.5% to \$776,000 for the quarter ended June 30, 2004 as compared to the same period last year. Mortgage brokerage and referral fees decreased by 46.1% or \$443,000 to \$518,000 for the quarter ended June 30, 2004 as compared to \$961,000 for the same period last year. This decrease was due primarily to an increase in long term interest rates which resulted in a decrease in the volume of residential mortgage refinance transactions. As a result of the decrease in refinance transactions, there was also a decrease in loan origination and processing fees of \$103,000 or 45.9% to \$122,000 for the quarter ended June 30, 2004 as compared to \$225,000 for the quarter ended June 30, 2003. The results for the three months ended June 30, 2003 reflect gains from the sale of investment securities of \$183,000. During the quarter ended June 30, 2004, there were no sales of investment securities. Higher volumes of deposit accounts resulted in an increase in fees and service charges of \$27,000 or 30.4% to \$114,000 for the three months ended June 30, 2004 as compared to \$87,000 for the same period last year.

For the six months ended June 30, 2004, non interest income decreased \$1.3 million or 45.6% to \$1.5 million as compared to \$2.8 million for the same period in 2003; this decrease is due to similar reasons cited earlier. Mortgage brokerage and referral fees decreased \$881,000 or 46.5% to \$1.0 million for the six months ended June 30, 2004 from \$1.9 million for the six months ended June 30, 2003. Loan origination and processing fees also decreased 40.3% or \$163,000 from \$404,000 for the six months ended June 30, 2003 to \$241,000 for the six months ended June 30, 2004. This decreasing trend in mortgage brokerage and referral fees and loan origination and processing fees when comparing 2004 to 2003 is expected to continue for the remainder of 2004 with the anticipated increase in interest rates and the continuing decrease in the number of refinance transactions. Included in the results for the six months ended June 30, 2003 are gains on sales of investment securities of \$308,000; during the six months ended June 30, 2004, there were no sales of investment securities.

Non-interest expenses

Non-interest expenses increased 0.2% or \$6,000 to \$3,012,000 for the quarter ended June 30, 2004 from \$3,006,000 for the quarter ended June 30, 2003. Salaries and benefits expense decreased 4.0%, or \$78,000 to \$1,866,000 for the quarter ended June 30, 2004 from \$1,944,000 for the quarter ended June 30, 2003. Increases in salaries, due primarily to staff additions resulting from the opening of three branches in 2003, were more than offset by lower levels of commissions and production related incentive compensation

accruals due to the decrease in the volume of residential mortgage refinance transactions. Of the three branches opened in 2003, only one impacted the second quarter of 2003; the results for the second quarter of 2004 reflect all three branches. Occupancy and equipment expense, net, increased \$50,000 or 15.4% to \$379,000 for the quarter ended June 30, 2004 from \$328,000 for the quarter ended June 30, 2003 due primarily to the establishment during 2003 of three additional branch locations. Loan administration and processing expenses decreased 50.4% to \$66,000 for the three months ended June 30, 2004 from \$133,000 for the three months ended June 30, 2003 due to the decrease in the volume of residential mortgage refinance transactions cited earlier. Data processing and other outside services increased \$39,000 from \$166,000 for the three months ended June 30, 2003 to \$205,000 for the three months ended June 30, 2004; this increase is the result of the implementation of additional data processing services along with the increase in the number of branches and the number of customer loan and deposit accounts. Professional services increased \$23,000 to \$111,000 for the three months ended June 30, 2004 from \$88,000 for the three months ended June 30, 2003 due primarily to an increase in accruals for legal activities. Increased marketing activities resulted in an increase in advertising and promotional expenses of \$21,000 to \$107,000 for the three months ended June 30, 2004 from \$86,000 for the same period last year.

For the six months ended June 30, 2004, non-interest expenses increased \$74,000 or 1.3% to \$5,936,000 from \$5,862,000 for the same period last year for similar reasons cited above. Salary and benefits expenses decreased \$168,000 and loan administration and processing expenses decreased \$106,000. Occupancy and equipment expense, net increased \$161,000. Advertising and promotional expenses increased \$64,000; data processing and other outside services and professional services increased \$43,000 and \$34,000, respectively.

Bancorp has received regulatory approval to establish two additional branch locations which will result in additional capital expenditures as well as increases in salaries and benefits and occupancy and equipment expenses. The first branch opened in July 2004; management anticipates that the second branch will open during the fourth quarter of 2004.

Income Taxes

Bancorp recorded income tax expense of \$162,000 for the quarter ended June 30, 2004 as compared to \$227,000 for the quarter ended June 31, 2003. For the six months ended June 30, 2004, income tax expense was \$301,000 as compared to \$460,000 for the same period last year. The effective tax rates for the quarters ended June 30, 2004 and June 30, 2003 were 40.4% and 39.4%, respectively; the effective tax rates for the six months ended June 30, 2004 and June 30, 2003 were 40.95% and 39.25%, respectively. These changes are related primarily to the change in pre-tax income and the exclusion for state tax purposes of certain holding company expenses.

LIQUIDITY

Bancorp's liquidity ratio was 33.6% and 37.0% at June 30, 2004 and 2003, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying consolidated balance sheets are considered liquid assets: cash and due from banks, federal funds sold, short term investments and available for sale securities. Liquidity is a measure of Bancorp's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposit accounts and increases in its loan portfolio. Management believes Bancorp's short-term assets have sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts, the costs related to opening new branch offices and to meet other anticipated cash requirements.

CAPITAL

The following table illustrates Bancorp's regulatory capital ratios at June 30, 2004 and December 31, 2003 respectively:

| | <u>June 30, 2004</u> | <u>December 31, 2003</u> |
|---------------------------|----------------------|--------------------------|
| Total Risk-based Capital | 11.80% | 11.87% |
| Tier 1 Risk-based Capital | 9.96% | 10.00% |
| Leverage Capital | 7.30% | 7.51% |

The following table illustrates the Bank's regulatory capital ratios at June 30, 2004 and December 31, 2003 respectively:

| | <u>June 30, 2004</u> | <u>December 31, 2003</u> |
|---------------------------|----------------------|--------------------------|
| Total Risk-based Capital | 11.59% | 11.67% |
| Tier 1 Risk-based Capital | 10.34% | 10.47% |
| Leverage Capital | 7.57% | 7.85% |

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Based on the above ratios, the Bank is considered to be "well capitalized" at June 30, 2004 under applicable regulations. To be considered "well-capitalized," an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%.

Management continuously assesses the adequacy of the Bank's capital to ensure that the Bank remains a "well capitalized" institution. Management's strategic and capital plans contemplate various alternatives to raise additional capital to support the planned growth of the Bank.

IMPACT OF INFLATION AND CHANGING PRICES

Bancorp's consolidated financial statements have been prepared in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the general levels of inflation. Interest rates do not necessarily move in the same direction or by the same magnitude as the prices of goods and services. Notwithstanding this, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect Bancorp's earnings in future periods.

"SAFE HARBOR" STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in Bancorp's public reports, including this report, and in particular in this "Management's Discussion and Analysis of Financial Condition and Results of Operation," may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of repricing of Bancorp's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the conduct of its business, (5) changes in competition among financial services companies, including possible further encroachment of non-banks on services traditionally provided by banks, (6) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the effects of Bancorp's opening of branches, and (8) the effect of any decision by Bancorp to engage in any new business activities. Other such factors may be described in Bancorp's future filings with the SEC.

Item 3. Controls and Procedures

Based on an evaluation of the effectiveness of Bancorp's disclosure controls and procedures performed by Bancorp's management, with the participation of Bancorp's Chief Executive Officer and its Chief Financial Officer as of the end of the period covered by this report, Bancorp's Chief Executive Officer and Chief Financial Officer concluded that Bancorp's disclosure controls and procedures have been effective.

As used herein, "disclosure controls and procedures" means controls and other procedures of Bancorp that are designed to ensure that information required to be disclosed by Bancorp in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the

Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Bancorp in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to Bancorp's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in Bancorp's internal control over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during Bancorp's fiscal quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

PART II - OTHER INFORMATION.

Item 2. Changes in Securities

(a) Common Stock, \$2.00 par value per share.

On April 15, 2004, the Board of Directors of Bancorp declared, effective as of April 19, 2004, a dividend distribution of one Right for each outstanding share of Common Stock of Bancorp. The dividend was payable on April 29, 2004 to the stockholders of record as of the close of business on such date (the "Record Date"). Each Right entitles the registered holder to purchase from Bancorp 8.152 shares of Bancorp's Common Stock, \$2.00 par value (the "Common Stock"), at a price of \$60.00, or \$7.36 per share (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement, dated as of April 19, 2004 (the "Rights Agreement"), between Bancorp and Registrar and Transfer Company (the "Rights Agent").

The Rights will be evidenced, with respect to any of Bancorp's Common Stock certificates outstanding as of the Record Date, by such Common Stock certificate and this Summary until the earliest of (i) the tenth Business Day after a public announcement that a person or group of affiliated or associated persons acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of Common Stock of Bancorp (an "Acquiring Person"); (ii) the tenth Business Day (or such later day as may be determined by action of the Board of Directors of Bancorp prior to such time as any person becomes an Acquiring Person) after the date of the commencement of a tender or exchange offer by any person (other than Bancorp) if, upon consummation such person would be an Acquiring Person; and (iii) the tenth Business Day (or such later day as may

be determined by action of the Board of Directors of Bancorp prior to such time as any person becomes and Acquiring Person) after the filing by any Person (other than Bancorp) of a registration statement under the Securities Act of 1933, as amended, with respect to a contemplated exchange offer to acquire (when added to any shares as to which such person is the beneficial owner immediately prior to such filing) beneficial ownership of 15% or more of the issued and outstanding shares of Common Stock (the earliest of such dates being called the "Distribution Date"). The date of announcement of the existence of an Acquiring Person referred to in clause (i) above is hereinafter referred to as the "Stock Acquisition Date".

The Rights Agreement provides that, until the Distribution Date, the Rights will be transferred with and only with Bancorp's Common Stock. New Common Stock certificates issued after the Record Date upon transfer or new issuance on Bancorp's Common Stock will contain a notation incorporating the Rights Agreement by reference. Until the Distribution Date, the surrender for transfer of any of the Common Stock certificates outstanding as of the Record Date will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate and the number of Rights associated with each share of Common Stock shall be proportionately adjusted in the event of any dividend in Common Stock on the Common Stock or subdivision, combination or reclassification of the Common Stock. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of Bancorp's Common Stock as of the close of business on the Distribution Date and such separate certificates alone will evidence Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire on April 19, 2014, unless earlier redeemed or exchanged by Bancorp as described below.

The Purchase Price payable, and the number of shares of Common Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Common Stock. Bancorp has agreed to reserve and keep available out of its currently authorized and unissued shares of Common Stock the number of shares of Common Stock that will be sufficient to permit to the maximum extent possible the exercise of all outstanding Rights. Since Bancorp currently does not have such number of shares available to place in reserve, Bancorp has undertaken to use its best efforts to amend its Certificate of Incorporation to increase the authorized number of shares to an amount

sufficient to permit the exercise of all outstanding Rights. In the event Bancorp does not receive shareholder approval to amend its Certificate of Incorporation, the Rights Agreement provides that each holder of a Right shall, at the discretion of the Board of Directors, have a right to receive, upon exercise of the Rights, such number of Common Stock Equivalents, as defined in the Rights Agreement, or the maximum number of shares of Common Stock available for issuance to such holder at a reduced Purchase Price, which reflects a per share Purchase Price of 50% of current market value as determined in the Rights Agreement.

In the event that any Person becomes an Acquiring Person, then ten Business Days after such date, each holder of a Right, other than the Acquiring Person (whose Rights would thereafter be null and void) and certain of its transferees, would thereafter have the right to receive upon exercise that number of shares of Bancorp's Common Stock having a market value of twice the exercise price of the Right (i.e., a 50% discount to market value); if insufficient shares are available to satisfy the Right, Bancorp may substitute other consideration, as appropriate, or make an adjustment to the exercise price of the Right to achieve substantially the intended economic benefit to shareholders (other than the Acquiring Person) of the 50% discount.

In the event that, following the earlier of the Distribution Date and the Stock Acquisition Date, Bancorp (i) merges with or into another Company and Bancorp either is not the surviving corporation or is the surviving corporation but all of its Common Stock is exchanged for cash or securities of the other Company, or (ii) sells more than 50% of its assets, cash flow or earning power to any Company or Person, then each holder of a Right, other than an Acquiring Person (whose Rights would be null and void), would have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the surviving company (or its parent company or other controlling entity) which at the time of such transaction would have a market value of four times the exercise price of the Right.

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in such Purchase Price. No fractional shares of Common Stock will be issued and, in lieu thereof, if necessary, an adjustment in cash will be made based on the market price of the Common Shares on the last trading date prior to the date of exercise.

At any time prior to the earlier of (i) the tenth Business Day after the Stock Acquisition Date or (ii) April 19, 2014, Bancorp may redeem the Rights in whole, but not in part, at a price of \$.001 per Right (payable in cash, shares of Common Stock or other consideration), appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (the "Redemption Price"). Immediately upon the action of Bancorp electing to redeem the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

In the event that any Person becomes an Acquiring Person, Bancorp may exchange all or part of the Rights (other than those held by the Acquiring Person) for Common Stock at an exchange ratio of one share of Common Stock per Right (the "Exchange Ratio"), appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof. Immediately upon the action of Bancorp electing to exchange the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive that number of shares of Common Stock determined by reference to the Exchange Ratio.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of Bancorp, including, without limitation, no right to vote or to receive dividends.

The terms of the Rights may be amended by Bancorp and the Rights Agent, provided that following the Distribution Date, the amendment does not materially adversely affect the interest of the holders of the Rights (other than an Acquiring Person) and provided that no amendment shall be made which decreases the Redemption Price.

A copy of the Rights Agreement has been filed with the Securities and Exchange Commission as Exhibit 99.2 to a Report on Form 8-k dated April 19, 2004, which is incorporated here by reference.

- (b) Not applicable
- (c) During the three months ended June 30, 2004, Bancorp issued 21,583 shares of its Common Stock upon the exercise of certain warrants that were granted by the Bank in 1994 in connection with its organization to persons who assisted the Bank in meeting its pre-opening expenses. The exercise price per share of these warrants is \$6.00. The obligations under these warrants were assumed by Bancorp at the time the Bank became a wholly owned subsidiary of Bancorp.

The total amount received by Bancorp for these shares was \$129,498. No underwriter was used in connection with the sale of these 21,583 shares nor were any underwriting discounts or commissions paid. Bancorp claims an exemption from registration for the sale of these shares under Rule 504 under the Securities Act of 1933, on the basis that the aggregate price for all of the warrants issued to individuals involved in the organization is less than \$1,000,000.

(d) Not applicable

(e) Not applicable

Item 4. Submission of Matters to a vote of Security Holders

(a) The Annual Meeting of Shareholders (the [Annual Meeting]) of Patriot National Bancorp, Inc was held on June 15, 2004.

(b) Not applicable pursuant to Instruction 3 to Item 4 of Part II of Form 10-QSB.

(c) The following is a brief description of the matters voted upon at the Annual Meeting and the number of votes cast for, against or withheld as well as the number of abstentions to each such matter:

(i)The election of nine directors for the ensuing year:

| | For | Withheld Authority to Vote For |
|---------------------|-----------|--------------------------------------|
| Angelo De Caro | 2,187,083 | 37,302 |
| John J. Ferguson | 2,210,328 | 14,057 |
| John A. Geoghegan | 2,212,474 | 11,911 |
| L. Morris Glucksman | 2,214,878 | 9,507 |
| Charles F. Howell | 2,189,103 | 35,282 |
| Michael Intrieri | 2,212,528 | 11,857 |
| Robert F. O'Connell | 2,188,903 | 35,482 |
| Paul C. Settelmeyer | 2,212,126 | 12,259 |
| Philip W. Wolford | 2,188,959 | 35,426 |

(ii)The ratification of an amendment to the Certificate of Incorporation of Bancorp to increase the authorized number of shares of capital stock of Bancorp from 5,333,333 shares of common stock, par value \$2.00 per share ([Common Stock]), to 31,000,000 shares of capital stock, consisting of 30,000,000 shares of Common Stock, par value \$2.00 per share, and 1,000,000 shares of Serial Preferred Stock, without par.

| | | |
|-----------|---------|---------|
| For | Against | Abstain |
| 1,575,870 | 140,476 | 2,568 |

(iii)The consideration of a proposal to ratify the appointment of McGladrey & Pullen, LLP as independent auditors for Bancorp for the year ending December 31, 2004.

| | | |
|-----------|---------|---------|
| For | Against | Abstain |
| 2,208,702 | 14,506 | 1,177 |

(d) Not applicable.

Item 6. Exhibits and Reports on Form 8-K

| (a) | <u>No.</u> | <u>Description</u> |
|-----|------------|---|
| | (4) | Reference is made to the Rights Agreement dated April 19, 2004 by and between Patriot National Bancorp, Inc. and Registrar and Transfer Company filed as Exhibit 99.2 to Bancorp's Report on Form 8-K filed on April 19, 2004, which is incorporated herein by reference. |
| | 31(1) | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| | 31(2) | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| | 32 | Section 1350 Certification |

(b)During the quarter ended June 30, 2004, Bancorp filed the following Current Reports on Form 8-K:

Report dated April 19, 2004 (filed April 19, 2004) responded to Item 5 and related to a press release announcing the adoption of a shareholder rights plan, the receipt of regulatory approval to establish a full service branch location in Darien, Connecticut and the filing of an application for regulatory approval to establish a second full service branch location in Wilton, Connecticut.

Report dated May 11, 2004 (filed May 11, 2004) responded to Item 12 and related to a press release announcing certain information concerning Bancorp's results of operations for the quarter ended March 31, 2004.

Report dated June 15, 2004 (filed June 15, 2004) responded to Item 5 and related to a press release announcing an increase in Bancorp's quarterly dividend.

SIGNATURES

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

Patriot National Bancorp, inc.
(Registrant)

By: /s/ Robert F. O'Connell
Robert F. O'Connell,
Senior Executive Vice President
Chief Financial Officer

(On behalf of the registrant and as chief financial officer)

August 12, 2004

