

PATRIOT NATIONAL BANCORP INC

Form 10-Q

August 13, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended June 30, 2012

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut 06-1559137

(State of incorporation) (I.R.S. Employer Identification Number)

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900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant's telephone number)

Check whether the registrant (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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>

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

Yes ☐ No ☒

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

Common stock, \$0.01 par value per share, 38,467,073 shares outstanding as of the close of business July 31, 2012.

Table of Contents

Table of Contents

Part I	FINANCIAL INFORMATION	Page
<u>Item 1.</u>	<u>Consolidated Financial Statements</u>	3
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	45
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	61
<u>Item 4.</u>	<u>Controls and Procedures</u>	62
Part II	OTHER INFORMATION	
<u>Item 1.</u>	<u>Legal Proceedings</u>	63
<u>Item 1A.</u>	<u>Risk Factors</u>	63
<u>Item 6.</u>	<u>Exhibits</u>	63

Table of Contents**PART I FINANCIAL INFORMATION****Item 1: Consolidated Financial Statements****PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED BALANCE SHEETS**

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	\$ 3,720,985	\$ 4,241,552
Interest bearing deposits	58,456,392	50,474,257
Short-term investments	710,157	709,567
Total cash and cash equivalents	62,887,534	55,425,376
Securities:		
Available for sale securities, at fair value (Note 2)	56,342,630	66,469,972
Other Investments	3,500,000	3,500,000
Federal Reserve Bank stock, at cost	1,719,550	1,707,000
Federal Home Loan Bank stock, at cost	4,343,800	4,508,300
Total securities	65,905,980	76,185,272
Loans receivable (net of allowance for loan losses: 2012: \$6,673,648 2011: \$9,384,672) (Note 3)	483,858,072	501,227,297
Loans held for sale		250,000
Accrued interest and dividends receivable	2,289,346	2,453,179
Premises and equipment, net	4,712,520	4,108,318
Cash surrender value of life insurance	21,247,568	20,984,604
Other real estate owned	1,517,755	2,762,640
Deferred tax asset (Note 6)		
Other assets	1,848,344	2,419,592
Total assets	\$ 644,267,119	\$ 665,816,278
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	\$ 71,722,494	\$ 65,613,374
Interest bearing deposits	450,373,261	479,296,019
Total deposits	522,095,755	544,909,393
Borrowings:		
Repurchase agreements	7,000,000	7,000,000
Federal Home Loan Bank borrowings	50,000,000	50,000,000
Total borrowings	57,000,000	57,000,000
Junior subordinated debt owed to unconsolidated trust	8,248,000	8,248,000
Accrued expenses and other liabilities	5,164,509	5,109,225
Total liabilities	592,508,264	615,266,618

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Commitments (Note 9)

Shareholders' equity

Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding

Common stock, \$.01 par value, 100,000,000 shares authorized; 2012: 38,478,778 shares issued;

38,467,073 shares outstanding. 2011: 38,374,432 shares issued; 38,362,727, shares outstanding

	384,787	383,744
Additional paid-in capital	105,182,518	105,050,433
Accumulated deficit	(53,968,019)	(54,858,831)
Less: Treasury stock, at cost: 2012 and 2011 11,705 shares	(160,025)	(160,025)
Accumulated other comprehensive income	319,594	134,339

Total shareholders' equity	51,758,855	50,549,660
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Total liabilities and shareholders' equity	\$ 644,267,119	\$ 665,816,278
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See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Interest and Dividend Income				
Interest and fees on loans	\$ 5,811,733	\$ 6,538,593	\$ 12,477,525	\$ 13,495,154
Interest on investment securities	426,658	486,738	903,688	760,921
Dividends on investment securities	31,879	80,728	65,160	150,629
Interest on federal funds sold		2,385		6,411
Other interest income	40,160	58,363	50,638	120,253
Total interest and dividend income	6,310,430	7,166,807	13,497,011	14,533,368
Interest Expense				
Interest on deposits	1,421,170	1,553,745	2,938,014	3,419,094
Interest on Federal Home Loan Bank borrowings	354,591	423,529	711,428	842,404
Interest on subordinated debt	74,677	71,219	151,244	141,617
Interest on other borrowings	76,927	76,927	153,853	153,009
Total interest expense	1,927,365	2,125,420	3,954,539	4,556,124
Net interest income	4,383,065	5,041,387	9,542,472	9,977,244
Provision for Loan Losses	(1,713,425)	1,482,798	(2,558,827)	8,464,427
Net interest income after provision for loan losses	6,096,490	3,558,589	12,101,299	1,512,817
Non-interest Income				
Mortgage brokerage referral fees	22,117	1,610	34,537	14,610
Loan application, inspection & processing fees	15,986	23,966	30,713	40,765
Deposit fees and service charges	227,064	248,039	455,732	528,940
Gain on sale of loans		79,729	263,646	79,729
Loss on sale of investment securities			(8,042)	
Earnings on cash surrender value of life insurance	120,294	152,985	262,963	321,245
Other income	69,639	203,984	165,548	307,874
Total non-interest income	455,100	710,313	1,205,097	1,293,163
Non-interest Expense				
Salaries and benefits	2,725,721	3,189,311	5,616,445	6,403,826
Occupancy and equipment expense	1,135,113	1,291,826	2,258,697	2,646,393
Data processing	345,704	336,005	691,725	663,809
Advertising and promotional expense	8,234	271,781	25,963	429,755
Professional and other outside services	854,268	1,234,958	1,469,350	2,116,665
Loan administration and processing expense	45,624	48,159	53,904	85,218
Regulatory assessments	462,153	628,476	872,154	1,239,744
Insurance expense	108,775	228,637	278,020	459,411

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Other real estate operations	16,351	774,450	(133,896)	1,044,957
Material and communications	132,734	164,115	263,912	364,253
Restructuring charges and asset disposals (Note 12)	126,730	2,986,441	495,207	2,986,441
Other operating expense	244,901	290,111	524,103	523,474
Total non-interest expense	6,206,308	11,444,270	12,415,584	18,963,946
Income (loss) before income taxes	345,282	(7,175,368)	890,812	(16,157,966)
Provision for Income Taxes				
Net income (loss)	\$ 345,282	\$ (7,175,368)	\$ 890,812	\$ (16,157,966)
Basic and diluted income (loss) per share (Note 7)	\$ 0.01	\$ (0.19)	\$ 0.02	\$ (0.42)

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ 345,282	\$ (7,175,368)	\$ 890,812	\$ (16,157,966)
Other comprehensive income:				
Unrealized holding gains on securities, net of taxes:				
Unrealized holding gains arising during the period	122,856	247,521	190,241	250,746
Less reclassification adjustment for losses included in net income			(4,986)	
Total	122,856	247,521	185,255	250,746
Comprehensive income (loss)	\$ 468,138	\$ (6,927,847)	\$ 1,076,067	\$ (15,907,220)

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

	Number of Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Six months ended June 30, 2011							
Balance at December 31, 2010	38,362,727	\$ 383,744	\$ 105,050,433	\$ (39,399,345)	\$ (160,025)	\$ 1,297,381	\$ 67,172,188
Comprehensive loss							
Net loss				(16,157,966)			(16,157,966)
Unrealized holding gain on available for sale securities, net of taxes						250,746	250,746
Total comprehensive loss							(15,907,220)
Balance, June 30, 2011	38,362,727	\$ 383,744	\$ 105,050,433	\$ (55,557,311)	\$ (160,025)	\$ 1,548,127	\$ 51,264,968
Six months ended June 30, 2012							
Balance at December 31, 2011	38,362,727	\$ 383,744	\$ 105,050,433	\$ (54,858,831)	\$ (160,025)	\$ 134,339	\$ 50,549,660
Comprehensive income							
Net income				890,812			890,812
Unrealized holding gain on available for sale securities, net of taxes						185,255	185,255
Total comprehensive income							1,076,067
Share-based compensation expense			133,128				133,128
Issuance of restricted stock	104,346	1,043	(1,043)				
Balance, June 30, 2012	38,467,073	\$ 384,787	\$ 105,182,518	\$ (53,968,019)	\$ (160,025)	\$ 319,594	\$ 51,758,855

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents**PATRIOT NATIONAL BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six Months Ended	
	June 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income (loss)	\$ 890,812	\$ (16,157,966)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Restructuring charges and asset disposals	(5,049)	1,996,441
Amortization and accretion of investment premiums and discounts, net	213,178	116,431
Amortization and accretion of purchase loan premiums and discounts, net	7,272	5,028
Provision for loan losses	(2,558,827)	8,464,427
Gain on sale of loans	(263,646)	(79,729)
Loss on sale of investment securities	8,042	
Amortization of core deposit intangible	6,963	7,506
Earnings on cash surrender value of life insurance	(262,964)	(321,245)
Depreciation and amortization	606,350	684,904
(Gain) loss on sale of other real estate owned	(201,355)	58,215
Impairment writedown on other real estate owned		165,764
Share-based compensation	133,128	
Changes in assets and liabilities:		
Decrease in deferred loan costs	36,089	100,958
Decrease in accrued interest and dividends receivable	163,833	182,723
Decrease in other assets	564,285	6,717,760
(Decrease) increase in accrued expenses and other liabilities	(61,423)	457,203
Net cash (used in) provided by operating activities	(723,312)	2,398,420
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	5,039,296	3,976,411
Proceeds from the sale (purchases) of available for sale securities	5,165,626	(51,995,480)
Redemptions of Federal Reserve Bank Stock		455,500
Purchases of Federal Reserve Bank Stock	(12,550)	(1,174,100)
Proceeds from repurchase of excess Federal Home Loan Bank Stock	164,500	
Proceeds from sale of loans	67,126,928	55,089,794
Net (increase) decrease in loans	(47,966,735)	16,308,380
Purchase of other real estate owned		(481,165)
Proceeds from sale of other real estate owned	1,823,435	15,715,973
Capital improvements of other real estate owned	(89,051)	
Purchase of bank premises and equipment	(252,341)	(218,522)
Net cash provided by investing activities	30,999,108	37,676,791
Cash Flows from Financing Activities:		
Net increase (decrease) in demand, savings and money market deposits	7,813,928	(9,443,954)
Net decrease in time certificates of deposits	(30,627,566)	(112,860,038)
Net cash used in financing activities	(22,813,638)	(122,303,992)

Net increase in cash and cash equivalents	7,462,158	(82,228,781)
Cash and Cash Equivalents:		
Beginning	55,425,376	146,777,658
Ending	\$ 62,887,534	\$ 64,548,877

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued

(Unaudited)

	Six Months Ended	
	2012	June 30, 2011
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 3,807,140	\$ 4,432,799
Income taxes paid	\$	\$ 10,534
Supplemental disclosures of noncash operating, investing and financing activities:		
Unrealized holding gain on available for sale securities arising during the period	\$ 306,842	\$ 459,133
Transfer of loans to other real estate owned	\$ 1,238,144	\$ 2,661,330
Transfer of other real estate owned to premises and equipment	\$ 950,000	\$

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1: Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2011 has been derived from the audited financial statements of Patriot National Bancorp, Inc. (Bancorp or the Company) 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.

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, 2011.

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 six months ended June 30, 2012 are not necessarily indicative of the results of operations that may be expected for the remainder of 2012.

Note 2: Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available-for-sale securities at June 30, 2012 and December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012:				