

PATRIOT NATIONAL BANCORP INC

Form 10-Q

August 12, 2013

[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, 2013

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut
(State of incorporation)

06-1559137
(I.R.S. Employer Identification Number)
900 Bedford Street, Stamford, Connecticut 06901

Edgar Filing: PATRIOT NATIONAL BANCORP INC - Form 10-Q

(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 ☐

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting Company ☒

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, 38,445,326 shares outstanding as of the close of business July 31, 2013.

Table of Contents

Table of Contents

	Page
<u>Part I</u>	
<u>FINANCIAL INFORMATION</u>	
Item 1. <u>Consolidated Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	45
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	59
Item 4. <u>Controls and Procedures</u>	61
<u>Part II</u>	
<u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	62
Item 1A. <u>Risk Factors</u>	62
Item 6. <u>Exhibits</u>	62

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

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	\$ 3,866,156	\$ 2,736,486
Interest bearing deposits	20,509,127	67,567,155
Short-term investments	711,213	710,766
Total cash and cash equivalents	25,086,496	71,014,407
Securities:		
Available for sale securities, at fair value (Note 2)	39,543,075	41,719,320
Other Investments	3,500,000	3,500,000
Federal Reserve Bank stock, at cost	1,634,100	1,730,200
Federal Home Loan Bank stock, at cost	4,142,600	4,343,800
Total securities	48,819,775	51,293,320
Loans receivable (net of allowance for loan losses: 2013: \$5,322,070 2012: \$6,015,636) (Note 3)	447,813,433	458,793,536
Loans held for sale	11,551,869	1,527,299
Accrued interest and dividends receivable	1,710,690	1,894,292
Premises and equipment, net	6,420,178	4,288,372
Cash surrender value of life insurance	21,770,880	21,501,703
Other real estate owned	3,845,041	4,873,844
Deferred tax asset (Note 6)		
Other assets	1,785,598	2,580,118
Other branch related assets held for sale		88,244
Total assets	\$ 568,803,960	\$ 617,855,135
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	\$ 63,869,164	\$ 61,459,959
Interest bearing deposits	413,773,710	411,117,558
Deposits held for sale		24,705,381
Total deposits	477,642,874	497,282,898
Borrowings:		
Repurchase agreements		7,000,000
Federal Home Loan Bank borrowings	35,000,000	50,000,000
Total borrowings	35,000,000	57,000,000
Junior subordinated debt owed to unconsolidated trust	8,248,000	8,248,000
Accrued expenses and other liabilities	4,773,320	5,756,439
Total liabilities	525,664,194	568,287,337

Edgar Filing: PATRIOT NATIONAL BANCORP INC - Form 10-Q

Commitments and Contingencies (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; 2013 & 2012: 38,491,819 shares

issued; 38,445,326 shares outstanding

	384,570	384,918
Additional paid-in capital	105,371,239	105,355,680
Accumulated deficit	(61,263,793)	(55,394,995)
Less: Treasury stock, at cost: 2013 and 2012 11,705 shares	(160,025)	(160,025)
Accumulated other comprehensive loss	(1,192,225)	(617,780)

Total shareholders' equity	43,139,766	49,567,798
-----------------------------------	-------------------	-------------------

Total liabilities and shareholders' equity	\$ 568,803,960	\$ 617,855,135
---	-----------------------	-----------------------

See Accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest and Dividend Income				
Interest and fees on loans	\$ 5,045,335	\$ 5,811,733	\$ 10,241,227	\$ 12,477,525
Interest on investment securities	225,829	426,658	473,565	903,688
Dividends on investment securities	29,205	31,879	58,063	65,160
Other interest income	9,252	40,160	37,612	50,638
Total interest and dividend income	5,309,621	6,310,430	10,810,467	13,497,011
Interest Expense				
Interest on deposits	1,032,813	1,421,170	2,161,527	2,938,014
Interest on Federal Home Loan Bank borrowings	167,183	354,591	518,203	711,428
Interest on subordinated debt	70,926	74,677	141,555	151,244
Interest on other borrowings	5,918	76,927	81,999	153,853
Total interest expense	1,276,840	1,927,365	2,903,284	3,954,539
Net interest income	4,032,781	4,383,065	7,907,183	9,542,472
Provision for Loan Losses		(1,713,425)	(29,786)	(2,558,827)
Net interest income after provision for loan losses	4,032,781	6,096,490	7,936,969	12,101,299
Non-interest Income				
Mortgage banking activity	118,738	22,117	164,972	34,537
Loan application, inspection & processing fees	115,890	15,986	153,920	30,713
Fees and service charges	211,100	227,064	382,611	455,732
Gain on sale of loans	28,310		28,310	263,646
Loss on sale of investment securities				(8,042)
Gain on sale of branch assets and deposits	50,643		50,643	
Earnings on cash surrender value of life insurance	142,068	120,294	269,177	262,963
Other income	101,753	69,639	206,350	165,548
Total non-interest income	768,502	455,100	1,255,983	1,205,097
Non-interest Expense				
Salaries and benefits	2,576,453	2,725,721	5,581,767	5,616,445
Occupancy and equipment expense	935,947	1,135,113	1,974,755	2,258,697
Data processing	288,170	345,704	659,616	691,725
Advertising and promotional expense	75,541	8,234	118,022	25,963
Professional and other outside services	770,296	854,268	1,658,886	1,469,350
Loan administration and processing expense	73,590	45,624	151,076	53,904
Regulatory assessments	304,803	462,153	678,305	872,154
Insurance expense	83,161	108,775	161,919	278,020
Other real estate operations	55,089	16,351	56,935	(133,896)
Material and communications	102,351	132,734	208,430	263,912
Restructuring charges and asset disposals (Note 12)	394,458	126,730	394,458	495,207

Edgar Filing: PATRIOT NATIONAL BANCORP INC - Form 10-Q

Prepayment penalty on borrowings	2,710,757		2,710,757	
Other operating expense	342,498	244,901	727,904	524,103
Total non-interest expense	8,713,114	6,206,308	15,082,830	12,415,584
(Loss) income before income taxes	(3,911,831)	345,282	(5,889,878)	890,812
Benefit for Income Taxes			(21,080)	
Net (loss) income	\$ (3,911,831)	\$ 345,282	\$ (5,868,798)	\$ 890,812
Basic and diluted (loss) income per share (Note 7)	\$ (0.10)	\$ 0.01	\$ (0.15)	\$ 0.02

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

PATRIOT NATIONAL BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net (loss) income	\$ (3,911,831)	\$ 345,282	\$ (5,868,798)	\$ 890,812
Other comprehensive income:				
Unrealized holding (losses) gains on securities, net of taxes:				
Unrealized holding (losses) gains arising during the period	(629,406)	122,856	(574,445)	190,241
Less reclassification adjustment for net gains included in net income				(4,986)
Total	(629,406)	122,856	(574,445)	185,255
Comprehensive (loss) income	\$ (4,541,237)	\$ 468,138	\$ (6,443,243)	\$ 1,076,067

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 (Loss)	Total
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
Six months ended June 30, 2013							
Balance at December 31, 2012	38,480,114	\$ 384,918	\$ 105,355,680	\$ (55,394,995)	\$ (160,025)	\$ (617,780)	\$ 49,567,798
Comprehensive loss							
Net loss				(5,868,798)			(5,868,798)
Unrealized holding loss on available for sale securities, net of taxes						(574,445)	(574,445)
Total comprehensive loss							(6,443,243)
Share-based compensation expense			15,211				15,211
Redemption of restricted stock	(34,788)	(348)	348				
Balance, June 30, 2013	38,445,326	\$ 384,570	\$ 105,371,239	\$ (61,263,793)	\$ (160,025)	\$ (1,192,225)	\$ 43,139,766

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,	
	2013	2012
Cash Flows from Operating Activities:		
Net (loss) income:	\$ (5,868,798)	\$ 890,812
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Restructuring charges and asset disposals	302,617	(5,049)
Amortization and accretion of investment premiums and discounts, net	87,510	213,178
Amortization and accretion of purchase loan premiums and discounts, net	15,848	7,272
Provision for loan losses	(29,786)	(2,558,827)
Gain on sale of loans	(28,310)	(263,646)
Gain on sale of mortgage loans	(160,488)	
Originations of mortgage loans held for sale	(28,975,427)	
Proceeds from sales of mortgage loans held for sale	19,111,345	
Loss on sale of investment securities		8,042
Earnings on cash surrender value of life insurance	(269,177)	(262,964)
Depreciation and amortization	587,765	606,350
Gain on sale of other real estate owned	(200,383)	(201,355)
Proceeds from sale of branch assets and deposits	126,875	
Gain on sale of branch assets and deposits	(50,643)	
Share-based compensation	15,211	133,128
Changes in assets and liabilities:		
(Increase) decrease in net deferred loan costs	(109,655)	36,089
Decrease in accrued interest and dividends receivable	183,602	163,833
Decrease in other assets	794,520	571,248
Decrease in accrued expenses and other liabilities	(1,285,736)	(61,423)
Net cash used in operating activities	(15,753,110)	(723,312)
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	1,514,290	5,039,296
Proceeds from the sale of available for sale securities		5,165,626
Purchases of Federal Reserve Bank stock		(12,550)
Proceeds from repurchase of excess stock by Federal Reserve Bank	96,100	
Proceeds from repurchase of excess stock by Federal Home Loan Bank	201,200	164,500
Proceeds from sale of loans	10,655,482	67,126,928
Net decrease (increase) in loans	476,524	(47,966,735)
Proceeds from sale of other real estate owned	1,309,587	1,823,435
Capital improvements of other real estate owned	(80,401)	(89,051)
Purchase of bank premises and equipment, net	(2,707,559)	(252,341)
Net cash provided by investing activities	11,465,223	30,999,108
Cash Flows from Financing Activities:		
Net increase in demand, savings and money market deposits	17,102,802	7,813,928
Net decrease in time certificates of deposits	(22,204,621)	(30,627,566)
Decrease in deposits held for sale	(14,538,205)	
Decrease in FHLB borrowings	(15,000,000)	
Decrease in repurchase agreements	(7,000,000)	

Net cash used in financing activities	(41,640,024)	(22,813,638)
Net (decrease) increase in cash and cash equivalents	(45,927,911)	7,462,158
Cash and Cash Equivalents:		
Beginning	71,014,407	55,425,376
Ending	\$ 25,086,496	\$ 62,887,534