PATRIOT NATIONAL BANCORP INC
Form 10-Q
August 08, 2008

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, 2008 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)

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 X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer:

Large Accelerated Filer ____ Accelerated Filer __X__ Non-Accelerated Filer

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

Yes ___ No X

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

Common stock, $2.00 par value per share, 4,752,370 shares issued and outstanding as of the close of business July 31, 2008.

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PART I - FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

PATRIOT NATIONAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and due from banks	$ 2,417,604	$ 2,760,246
Federal funds sold	29,700,000	11,000,000
Short term investments	1,307,933	251,668
Cash and cash equivalents	33,425,537	14,011,914
Available for sale securities (at fair value)	51,224,294	67,290,040
Federal Reserve Bank stock	1,913,200	1,911,700
Federal Home Loan Bank stock	4,199,300	2,656,100
Loans receivable (net of allowance for loan losses: 2008 $7,217,620; 2007 $5,672,620)	776,298,982	685,885,990
Accrued interest receivable	5,167,816	4,576,018
Premises and equipment	7,883,531	7,805,565
Deferred tax asset, net	2,737,267	2,788,024
Goodwill and other intangible assets	1,460,231	1,469,075
Cash surrender value of life insurance	18,683,417	18,193,684
Other assets	1,433,438	942,144
Total assets	$ 904,427,013	$ 807,530,254
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	$ 66,295,842	$ 51,925,991
Interest bearing deposits	661,051,725	620,473,418
Total deposits	727,347,567	672,399,409
Repurchase agreements	7,000,000	7,000,000
Federal Home Loan Bank borrowings	88,446,000	47,500,000
Junior subordinated debt owed to unconsolidated trust	8,248,000	8,248,000
Accrued expenses and other liabilities	6,288,150	5,547,478
Total liabilities	837,329,717	740,694,887
Shareholders' equity		
Preferred stock: 1,000,000 shares authorized; no shares issued	-	-
Common stock, $2 par value: 60,000,000 shares authorized; shares issued 2008 - 4,755,114; outstanding 4,752,530; 2007 issued and outstanding: 2007 - 4,746,844	9,510,228	9,493,688
Additional paid in capital	49,633,062	49,549,119
Retained earnings	7,965,383	7,846,060
Less Treasury stock at cost: 2008 - 2,744 shares	(40,692)	-

Accumulated other comprehensive income - net unrealized gain (loss) on available for sale securities, net of taxes		29,315		(53,500)
Total shareholders' equity		67,097,296		66,835,367
Total liabilities and shareholders' equity	$	904,427,013	$	807,530,254

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest and Dividend Income				
Interest and fees on loans	$ 13,775,210	$ 11,270,743	$ 27,097,371	$ 21,606,864
Interest and dividends on investment securities	706,199	1,155,542	1,628,304	2,170,801
Interest on federal funds sold	42,836	567,730	97,247	780,958
Total interest and dividend income	14,524,245	12,994,015	28,822,922	24,558,623
Interest Expense				
Interest on deposits	6,824,965	6,897,473	14,434,621	12,590,716
Interest on Federal Home Loan Bank borrowings	380,516	22,598	681,786	121,047
Interest on subordinated debt	117,806	172,953	277,897	344,351
Interest on other borrowings	74,391	-	154,040	-
Total interest expense	7,397,678	7,093,024	15,548,344	13,056,114
Net interest income	7,126,567	5,900,991	13,274,578	11,502,509
Provision for Loan Losses	1,068,000	-	1,545,000	-
Net interest income after provision for loan losses	6,058,567	5,900,991	11,729,578	11,502,509
Noninterest Income				
Mortgage brokerage referral fees	96,445	216,377	150,559	504,711
Loan origination & processing fees	65,099	57,642	171,123	106,244
Fees and service charges	254,042	194,038	504,898	375,381
Gain on redemption of investment securities	-	5,000	-	5,000
Earnings on cash surrender value of life insurance	258,491	-	489,733	-
Other income	86,937	53,321	198,439	120,056
Total noninterest income	761,014	526,378	1,514,752	1,111,392
Noninterest Expenses				
Salaries and benefits	3,352,789	3,083,862	6,663,840	6,175,817
Occupancy and equipment expense, net	1,306,448	1,013,192	2,603,367	1,960,256
Data processing and other outside services	457,878	486,788	924,227	898,004
Professional services	229,769	89,870	453,145	226,205
Advertising and promotional expenses	242,175	208,376	429,170	407,678

Loan administration and processing expenses		60,798		52,155		120,317		90,974
Regulatory assessments		194,395		179,212		363,805		243,667
Other real estate operations		-		(10,594)		-		(17,556)
Other noninterest expenses		526,090		450,159		1,034,553		911,088
Total noninterest expenses		6,370,342		5,553,020		12,592,424		10,896,133
Income before income taxes		449,239		874,349		651,906		1,717,768
Provision for Income Taxes		53,000		340,000		105,000		667,000
Net income	$	396,239	$	534,349	$	546,906	$	1,050,768
Basic income Per Share	$	0.08	$	0.11	$	0.12	$	0.22
Diluted income Per Share	$	0.08	$	0.11	$	0.11	$	0.22
Dividends per share	$	0.045	$	0.045	$	0.090	$	0.090

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 396,239	$ 534,349	$ 546,906	$ 1,050,768
Unrealized holding gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period, net of taxes	(180,723)	(59,738)	82,815	162,372
Comprehensive income	$ 215,516	$ 474,611	$ 629,721	$ 1,213,140

See accompanying notes to consolidated financial statements.

PATRIOT NATIONAL BANCORP, INC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	Number of Shares	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Gain (Loss)	Total
Six months ended June 30, 2007							
Balance at December 31, 2006	4,739,494	$ 9,478,988	$ 49,463,307	$ 6,022,012	$ -	$ (680,962)	$ 64,283,345
Comprehensive income							
Net income				1,050,768			1,050,768
Unrealized holding gain on available for sale securities, net of taxes						162,372	162,372
Total comprehensive income							1,213,140
Issuance of common stock							
Stock issued to directors	2,350	4,700	45,261				49,961
Dividends				(426,661)			(426,661)
Balance, June 30, 2007	4,741,844	$ 9,483,688	$ 49,508,568	$ 6,646,119	$ -	$ (518,590)	$ 65,119,785
Six months ended June 30, 2008							
Balance at December 31, 2007	4,746,844	$ 9,493,688	$ 49,549,119	$ 7,846,060	$ -	$ (53,500)	$ 66,835,367
Comprehensive income							
Net income				546,906			546,906
Unrealized holding gain on available for							
						82,815	82,815

sale securities, net of taxes							
Total comprehensive income							629,721
Issuance of common stock							
Stock options exercised	5,000	10,000	40,550				50,550
Stock issued to directors	3,270	6,540	43,393				49,933
							100,483
Treasury Stock							
Stock purchased under buyback					(40,692)		(40,692)
Dividends				(427,583)			(427,583)
Balance, June 30, 2008	4,755,114	$ 9,510,228	$ 49,633,062	$ 7,965,383	$ (40,692)	$ 29,315	$ 67,097,296

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash Flows from Operating Activities:		
Net income	$ 546,906	$ 1,050,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion of investment premiums and discounts, net	92,541	92,662
Provision for loan losses	1,545,000	-
Gain on redemption of investment security	-	(5,000)
Amortization of core deposit intangible	8,844	9,288
Earnings on cash surrender value of life insurance	(489,733)	-
Depreciation and amortization	777,602	537,925
Loss on disposal of bank premises and equipment	46	633
Payment of fees to directors in common stock	49,933	49,961
Changes in assets and liabilities:		
(Decrease) increase in deferred loan fees	(230,322)	157,304
Increase in accrued interest receivable	(591,798)	(493,597)
Increase in other assets	(491,294)	(78,569)
Increase (decrease) in accrued expenses and other liabilities	740,530	(726,655)
Net cash provided by operating activities	1,958,255	594,720
Cash Flows from Investing Activities:		
Purchases of available for sale securities	(8,366,036)	(4,994,283)
Principal repayments on available for sale securities	15,472,814	6,623,301
Proceeds from redemptions of available for sale securities	9,000,000	2,005,000
Purchases of Federal Reserve Bank Stock	(1,500)	-
Purchases of Federal Home Loan Bank Stock	(1,543,200)	-
Net increase in loans	(91,727,670)	(85,346,520)
Purchase of bank premises and equipment	(855,614)	(3,471,278)
Net cash used in investing activities	(78,021,206)	(85,183,780)
Cash Flows from Financing Activities:		
Net increase in demand, savings and money market deposits	56,280,924	20,964,306
Net (decrease) increase in time certificates of deposits	(1,332,766)	96,847,045
Net proceeds(repayments) from(of) FHLB borrowings	40,946,000	(8,000,000)
Proceeds from issuance of common stock	50,550	-
Payments under stock buyback program	(40,692)	
Dividends paid on common stock	(427,442)	(426,556)
Net cash provided by financing activities	95,476,574	109,384,795
Net increase in cash and cash equivalents	19,413,623	24,795,735

Cash and Cash Equivalents:					
	Beginning		14,011,914		55,474,539
	Ending	$	33,425,537	$	80,270,274

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Supplemental Disclosures of Cash Flow Information		
Cash paid for:		
Interest	$ 15,430,085	$ 13,068,208
Income taxes	$ 855,935	$ 820,000
Supplemental disclosures of noncash investing and financing activities:		
Unrealized holding gain on available for sale securities arising during the period	$ 133,572	$ 261,889
Dividends declared on common stock	$ 213,749	$ 213,383

See accompanying notes to consolidated financial statements.

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

Note 1: Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2007 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.

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, 2007.

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, 2008 are not necessarily indicative of the results of operations that may be expected for the remainder of 2008.

Certain 2007 amounts have been reclassified to conform to the 2008 presentation. Such reclassifications had no effect on net income.

Note 2: Income per share

Bancorp is required to present basic income per share and diluted income per share in its consolidated 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 reflects additional common shares that would have been outstanding if potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by Bancorp relate to outstanding stock options and are determined using the treasury stock method. 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, 2008 and 2007:

Three months ended June 30, 2008

		Net Income	Shares		Amount
Basic Income Per Share					
Income available to common shareholders	$	396,239	4,751,209	$	0.08
Effect of Dilutive Securities					
Stock Options outstanding		-	18,119		-
Diluted Income Per Share					
Income available to common shareholders					
plus assumed conversions	$	396,239	4,769,328	$	0.08

Three months ended June 30, 2007

		Net Income	Shares		Amount
Basic Income Per Share					
Income available to common shareholders	$	534,349	4,739,546	$	0.11
Effect of Dilutive Securities					
Stock Options outstanding		-	35,504		-
Diluted Income Per Share					
Income available to common shareholders					
plus assumed conversions	$	534,349	4,775,050	$	0.11

Six months ended June 30, 2008

		Net Income	Shares		Amount
Basic Income Per Share					
Income available to common shareholders	$	546,906	4,751,114	$	0.12
Effect of Dilutive Securities					
Stock Options outstanding		-	18,787		(0.01)
Diluted Income Per Share					
Income available to common shareholders					
plus assumed conversions	$	546,906	4,769,901	$	0.11

Six months ended June 30, 2007

		Net Income	Shares		Amount
Basic Income Per Share					
Income available to common shareholders	$	1,050,768	4,739,520	$	0.22
Effect of Dilutive Securities					
Stock Options outstanding		-	36,627		-
Diluted Income Per Share					
Income available to common shareholders					
plus assumed conversions	$	1,050,768	4,776,147	$	0.22

Note 3: Other Comprehensive Income

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 June 30, 2008			Six Months Ended June 30, 2008		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gain (loss) arising during the period	$ (291,489)	$ 110,766	$ (180,723)	$ 133,572	$ (50,757)	$ 82,815
Reclassification adjustment for gains recognized in income	-	-	-	-	-	-
Unrealized holding gain (loss) on available for sale securities, net of taxes	$ (291,489)	$ 110,766	$ (180,723)	$ 133,572	$ (50,757)	$ 82,815

	Three Months Ended June 30, 2007			Six Months Ended June 30, 2007		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gain (loss) arising during the period	$ (96,352)	$ 36,614	$ (59,738)	$ 261,889	$ (99,517)	$ 162,372
Reclassification adjustment for gains recognized in income	-	-	-	-	-	-
Unrealized holding gain (loss) on available for sale securities, net of taxes	$ (96,352)	$ 36,614	$ (59,738)	$ 261,889	$ (99,517)	$ 162,372

Note 4: Financial Instruments with Off-Balance Sheet Risk

In order to meet the financing needs of its customers, Bancorp, in the normal course of business, is a party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets. The contractual amounts of these instruments reflect the extent of involvement Bancorp has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit and standby letters of credit represent the amounts of potential accounting loss should the contracts be fully drawn upon, the customers default and the values of any existing collateral become worthless. Bancorp uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that Bancorp controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contractual amounts represent credit risk are as follows at
June 30, 2008:

Commitments to extend credit:		
Future loan commitments	$	97,748,935
Unused lines of credit		61,609,727
Undisbursed construction loans		108,932,691
Financial standby letters of credit		1,611,733
	$	269,903,086

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates, or other termination clauses, and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by Bancorp upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by Bancorp to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Newly issued or modified guarantees that are not derivative contracts are recorded on Bancorp's consolidated balance sheet at the fair value at inception. No liability related to guarantees was required to be recorded at June 30, 2008.

Note 5: Income Taxes

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes. FIN 48 applies to all tax positions related to income taxes subject to SFAS No. 109, Accounting for Income Taxes. This includes tax positions considered to be "routine" as well as those with a high degree of uncertainty. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition of the benefit (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Effective January 1, 2007, Bancorp has adopted the provisions of FIN 48 and has analyzed its federal and significant state filing positions. The periods subject to examination for Bancorp's federal returns are the tax years 2004 through 2007. The periods subject to examination for Bancorp's significant state return, which is Connecticut, are the tax years 2004 through 2006. Bancorp believes that its income tax filing positions and deductions will be sustained upon examination and does not anticipate any adjustments that will result in a material change in its financial statements. As a result, no reserve for uncertain income tax positions has been recorded pursuant to FIN 48, nor was there a cumulative effect recorded related to adopting FIN 48.

Bancorp's policy for recording interest and penalties related to uncertain tax positions is to record such items as part of its provision for federal and state income taxes.

The effective tax rate for the quarter and six months ended June 30, 2008 was 12% and 16%, respectively, which is based on Bancorp's annual projections for the year. The effective tax rate for both the quarter and six months ended June 30, 2007 was 39%. The change in effective tax rates is due primarily to the exclusion for income tax purposes of the earnings on the Bank-owned life insurance.

Note 6: Fair Value Measurements

Effective January 1, 2008, Bancorp adopted the provisions of SFAS No. 157, "Fair Value Measurements," for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157," Bancorp will delay application of SFAS 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of Bancorp's financial assets and financial liabilities carried at fair value effective January 1, 2008.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counter party credit quality, Bancorp creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. Bancorp's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes Bancorp's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, Bancorp obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Bancorp had no such loans at June 30, 2008.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale	$ -	$ 51,224,294	$ -	$ 51,224,294

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at June 30, 2008.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include measurement at fair value in the first step of a goodwill impairment test. Certain non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. As stated above, SFAS 157 will be applicable to these fair value measurements beginning January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115." This standard allows an entity the option to elect to measure eligible financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, thus Bancorp may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principals, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. SFAS 159 became effective beginning January 1, 2008. Bancorp elected not to measure any eligible items using the fair value option in accordance with SFAS 159 and therefore SFAS 159 had no impact on Bancorp’s financial statements.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

"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 "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 that 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, (8) the effect of any decision by Bancorp to engage in any business not historically operated by it, (9) the ability of Bancorp to raise additional capital in the future and successfully deploy the funds raised, and (10) the state of the economy and real estate values in Bancorp’s market areas, and the consequent affect on the quality of Bancorp’s loans. Other such factors may be described in Bancorp’s other filings with the SEC.

Although Bancorp believes that it offers the loan and deposit products and has the resources needed for continued success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause Bancorp to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

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. This policy 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 is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. The adequacy of the general component is measured using a risk rating system. Under this system, each loan is assigned a risk rating between one and nine; "one" being the least risk and "nine" reflecting the most risk or a complete loss. Risk ratings are assigned based upon the recommendations of the credit analyst and originating loan officer, and are confirmed by the loan committee at the initiation of the transactions. They are later reviewed and changed, when necessary, during the life of the loan. Each of these risk ratings has a corresponding loan loss factor which is based on historical loss experience adjusted for qualitative factors. These 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 and the loan committee. Finally, 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 such as 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. Loan quality control 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.

Summary

Bancorp's net income of $396,000 ($0.08 basic and diluted income per share) for the quarter ended June 30, 2008 represents a decrease of $138,000, or 26%, as compared to net income of $534,000 ($0.11 basic and diluted income per share) for the quarter ended June 30, 2007. For the six-month period ended June 30, 2008, net income of $547,000 ($0.12 basic and $0.11 diluted income per share) represents a decrease of $504,000, or 48%, as compared to net income of $1,051,000 ($0.22 basic and diluted income per share) for the six months ended June 30, 2007.

Despite pressures faced by the financial services industry, Bancorp continues its growth. Total assets increased $96.9 million from $807.5 million at December 31, 2007 to $904.4 million at June 30, 2008. Cash and cash equivalents increased $19.4 million to $33.4 million at June 30, 2008 as compared to $14.0 million at December 31, 2007. The available-for-sale securities portfolio decreased $16.1 million to $51.2 million at June 30, 2008 from $67.3 million at December 31, 2007. The net loan portfolio increased $90.4 million from $685.9 million at December 31, 2007 to $776.3 million at June 30, 2008. Deposits increased $54.9 million to $727.3 million at June 30, 2008 from $672.4 million at December 31, 2007; borrowings increased $40.9 million during the same period. Total shareholders' equity increased $262,000 from $66.8 million at December 31, 2007 to $67.1 million at June 30, 2008.

Financial Condition

Bancorp's total assets increased $96.9 million, or 12%, from $807.5 million at December 31, 2007 to $904.4 million at June 30, 2008. The growth in assets was funded by an increase in deposits and borrowings. The growth in deposits was largely attributable to promotions associated with the opening of two branches in the fourth quarter of 2007 and one branch that opened in May 2008. The increase in borrowings provides a lower cost alternative to retail deposits and was strategically done to help facilitate lowering the overall cost of funds. Cash and cash equivalents increased $19.4 million to $33.4 million at June 30, 2008 as compared to $14.0 million at December 31, 2007. Cash and due from banks decreased $343,000 while Federal funds sold and short term investments increased $18.7 million and $1.1 million, respectively.

Investments

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

	June 30, 2008	December 31, 2007
U. S. Government sponsored agency obligations	$ 2,000,000	$ 16,924,648
U. S. Government Agency and sponsored agency mortgage-backed securities	42,181,527	41,325,870
Money market preferred equity securities	7,042,767	9,039,522
Total Available for Sale Securities	$ 51,224,294	$ 67,290,040

Available-for-sale securities decreased $16.1 million, or 24%, from $67.3 million at December 31, 2007 to $51.2 million at June 30, 2008. The decrease is due primarily to the call or maturity of eight government sponsored agency bonds and the redemption of two money market preferred securities.

The amortized cost, gross unrealized gains, gross unrealized losses and fair values of available-for-sale securities at June 30, 2008 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Government sponsored agency obligations	$ 2,000,000	$ -	$ -	$ 2,000,000
U. S. Government Agency and sponsored agency mortgage-backed securities	42,134,244	169,052	(121,769)	42,181,527
Money market preferred equity securities	7,042,767	-	-	7,042,767
Total Available For Sale Securities	$ 51,177,011	$ 169,052	$ (121,769)	$ 51,224,294

At June 30, 2008, gross unrealized holding gains and gross unrealized holding losses on available-for-sale securities totaled $169,052 and $121,769, respectively. Of the securities with unrealized losses, there are 13 U. S. Government Agency and sponsored agency mortgage-backed securities that have unrealized losses for a period in excess of twelve months, with a combined current unrealized loss of $121,769. Management does not believe that any of the unrealized losses are other than temporary since they are the result of changes in the interest rate environment and they relate to mortgage-backed securities issued by U.S. Government Agencies and sponsored agencies. Bancorp has the ability to hold these securities to maturity, if necessary, and expects to receive all contractual principal and interest related to these investments. As a result, management believes that these unrealized losses will not have a negative impact on future earnings or a permanent negative effect on capital.

Loans

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

	June 30, 2008	December 31, 2007
Real Estate		
Commercial	$ 265,218,072	$ 233,121,685
Residential	147,403,070	110,154,838
Construction	251,533,271	254,296,326
Construction to permanent	40,244,006	37,701,509
Commercial	38,411,924	27,494,531
Consumer installment	1,027,587	1,270,360
Consumer home equity	41,099,412	29,154,498
Total Loans	784,937,342	693,193,747
Premiums on purchased loans	179,880	195,805
Net deferred fees	(1,600,620)	(1,830,942)
Allowance for loan losses	(7,217,620)	(5,672,620)
Loans receivable, net	$ 776,298,982	$ 685,885,990

Bancorp's net loan portfolio increased $90.4 million, or 13%, from $685.9 million at December 31, 2007 to $776.3 million at June 30, 2008. The significant increase includes a $37.2 million increase in residential real estate loans, a $32.1 million increase in commercial real estate loans and an $11.9 million increase in home equity loans.

The sustained growth in the loan portfolio reflects the continued demand for real estate based financing in the local markets where the Bank primarily conducts its lending business. The Bank offers a competitively priced and expanded product line, but due to changing economic and market conditions, management anticipates that loan growth will slow significantly as the year progresses.

At June 30, 2008, the net loan to deposit ratio was 107% and the net loan to total assets ratio was 86%. At December 31, 2007, these ratios were 102% and 85%, respectively.

Non-Accrual, Past Due and Restructured Loans

The following table presents non-accruing loans and loans past due 90 days or more and still accruing:

(Thousands of dollars)	June 30, 2008	December 31, 2007
Loans delinquent over 90 days still accruing	$ 1,468	$ 112
Non accruing loans	3,562	3,832
Total	$ 5,030	$ 3,944
% of Total Loans	0.64%	0.57%
% of Total Assets	0.56%	0.49%

Potential Problem Loans

Non-accrual loans decreased from $3,832,000 at December 31, 2007 to $3,562,000 at June 30, 2008 due to receipt of principal reductions from two borrowers. The non-accrual portfolio consists of two relationships. The first relationship is comprised of one loan in the amount of $788,000, which is well secured by real estate. The second relationship is comprised of three loans totaling $2,774,000, which are in the process of foreclosure. This relationship includes an SBA guarantee on a portion of the balance with additional collateral consisting of commercial real estate and business assets.

Loans delinquent over 90 days and still accruing totaled approximately $1,468,000 and primarily consisted of two loans. A loan for $950,000 is in the process of being renewed and a loan for $509,000 is awaiting payoff in full. These loans are past their maturity dates, but are current for payment.

Management has identified six potential problem construction speculation loans to five borrowers totaling $20,643,000 for which management has serious doubts as to the ability of the borrowers to comply with the present loan repayment terms. These loans are all secured by real estate located in Fairfield County, CT and Westchester County, NY. Management believes it is likely that these six loans will be placed on non-accrual status unless additional loan payments are made.

While none of the non-accruing loans at June 30, 2008 are construction loans and the Bank has never recorded a construction loan charge-off in its history, the slowing home sales activity and lower residential home prices in the Bank's market area will cause borrowers to incur additional carrying costs and may lead to an increased level of non-accruing construction loans. Even though an increase in non-accruing loans appears likely, due to the

Bank's conservative loan-to-value ratio policies and close loan monitoring, we do not anticipate significant loan charge-offs in the Bank's construction loan portfolio.

Allowance for Loan Losses

The changes in the allowance for loan losses for the periods shown are as follows:

	Three months ending June 30,		Six months ending June 30,	
(Thousands of dollars)	2008	2007	2008	2007
Balance at beginning of period	$ 6,150	$ 5,630	$ 5,673	$ 5,630
Charge-offs	-	(32)	-	(32)
Recoveries	-	-	-	-
Net (charge-offs) recoveries	-	(32)	-	(32)
Provision charged to operations	1,068	-	1,545	-
Balance at end of period	$ 7,218	$ 5,598	$ 7,218	$ 5,598
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period.	0.00%	0.00%	0.00%	0.00%

Based on management's evaluation of the allowance for loan losses, management believes that the allowance of $7.2 million at June 30, 2008 and $5.7 million at December 31, 2007 is adequate, but not excessive, under prevailing economic conditions, to absorb losses on existing loans.

Deposits

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

	June 30, 2008	December 31, 2007
Non-interest bearing	$ 66,295,842	$ 51,925,991
Interest bearing		
NOW	22,413,423	19,462,123
Savings	42,695,319	34,261,389
Money market	65,406,680	34,880,837
Time certificates, less than $100,000	328,635,905	300,502,281
Time certificates, $100,000 or more	201,900,398	231,366,788
Total interest bearing	661,051,725	620,473,418
Total Deposits	$ 727,347,567	$ 672,399,409

Total deposits increased $54.9 million or 8% from $672.4 million at December 31, 2007 to $727.3 million at June 30, 2008. Demand deposits increased $14.4 million, which is reflective of increases in personal checking accounts of $4.2 million and cashiers checks of $10.5 million. Total quarterly average balances for demand deposits increased by $2.4 million from December 31, 2007 to June 30, 2008, which is primarily due to growth in personal and internal accounts. Due to the uncertainty regarding the future direction of interest rates, certain customers are placing funds in liquid vehicles rather than locking them up in certificates of deposit. As a result, consumer money market premium accounts increased $30.5 million. Certificates of deposit decreased $1.3 million primarily due to the disciplined pricing plan implemented by the Bank during this period. Savings accounts increased $8.4 million or 25% due primarily to increases in a competitively priced commercial statement savings product. NOW accounts increased $3.0 million due to favorable fluctuations in attorney escrow accounts.

Borrowings

At June 30, 2008, total borrowings were $103.7 million. This reflects an increase of $40.9 million since December 31, 2007 as Bancorp is utilizing lower rate borrowings to offset the decline in certificates of deposit. This was strategically planned in order to assist with reducing the overall cost of funds. Bancorp is also trying to lengthen the maturities of its liabilities for better balance sheet management and this is more easily accomplished through the use of borrowings rather than certificates of deposit.

In addition to the outstanding borrowings disclosed in the consolidated balance sheet, the Bank has the ability to borrow approximately $48.7 million in additional advances from the

Federal Home Loan Bank of Boston, which includes a $2.0 million overnight line of credit. The Bank also has arranged a $3.0 million overnight line of credit from a correspondent bank and $10.0 million under a repurchase agreement; no amounts were outstanding under these two arrangements at June 30, 2008.

Capital

Capital increased $262,000 as income for the six months ended June 30, 2008 combined with an improvement in the market value of available-for-sale securities was partially offset by the declaration of quarterly dividends.

Off-Balance Sheet Arrangements

Bancorp's off-balance sheet arrangements, which primarily consist of commitments to lend, increased by $35.7 million from $244.2 million on December 31, 2007 to $269.9 million on June 30, 2008 due primarily to increase in approved loan commitments and undisbursed construction loans. In addition, the Bank has a commitment to purchase $10 million in investment securities upon their issuance in July.

Results of Operations

Interest and dividend income and expense

The following tables present average balance sheets (daily averages), interest income, interest expense and the corresponding yields earned and rates paid for major balance sheet components:

	Three months ended June 30,					
	2008			2007		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
	(dollars in thousands)					
Interest earning assets:						
Loans	$ 772,634	$ 13,775	7.13%	$ 573,079	$ 11,271	7.87%
Federal funds sold and other cash equivalents	12,500	68	2.18%	78,482	1,020	5.20%
Investments	60,645	681	4.49%	68,175	703	4.12%
Total interest earning assets	845,779	14,524	6.87%	719,736	12,994	7.22%
Cash and due from banks	6,354			4,158		
Premises and equipment, net	7,755			6,201		
Allowance for loan losses	(6,329)			(5,627)		
Other assets	29,352			9,992		
Total Assets	$ 882,911			$ 734,460		
Interest bearing liabilities:						
Deposits	$ 692,331	$ 6,825	3.94%	$ 600,651	$ 6,897	4.59%
FHLB advances	47,152	381	3.23%	1,868	23	4.93%
Subordinated debt	8,248	118	5.72%	8,248	173	8.39%
Other borrowings	7,000	74	4.23%	-	-	0.00%
Total interest bearing liabilities	754,731	7,398	3.92%	610,767	7,093	4.65%
Demand deposits	56,136			53,483		
Accrued expenses and other liabilities	4,455			4,847		
Shareholders' equity	67,589			65,363		
Total liabilities and equity	$ 882,911			$ 734,460		
Net interest income		$ 7,126			$ 5,901	
Interest margin			3.37%			3.28%
Interest spread			2.95%			2.57%

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	Six months ended June 30,					
	2008			2007		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
	(dollars in thousands)					
Interest earning assets:						
Loans	$ 747,691	$ 27,097	7.25%	$ 552,027	$ 21,607	7.83%
Federal funds sold and other cash equivalents	63,274	1,447	4.57%	68,750	1,404	4.08%
Investments	17,884	279	3.12%	59,881	1,548	5.17%
Total interest earning assets	828,849	28,823	6.95%	680,658	24,559	7.22%
Cash and due from banks	6,158			4,367		
Premises and equipment, net	7,701			5,553		
Allowance for loan losses	(6,083)			(5,629)		
Other assets	29,074			9,739		
Total Assets	$ 865,699			$ 694,688		
Interest bearing liabilities:						
Deposits	$ 683,302	$ 14,434	4.22%	$ 559,702	$ 12,591	4.50%
FHLB advances	40,911	682	3.33%	4,917	121	4.92%
Subordinated debt	8,248	278	6.74%	8,248	344	8.34%
Other borrowings	7,008	154	4.39%	-	-	0.00%
Total interest bearing liabilities	739,469	15,548	4.21%	572,867	13,056	4.56%
Demand deposits	53,548			51,578		
Accrued expenses and other liabilities	5,134			5,124		
Shareholders' equity	67,548			65,119		
Total liabilities and equity	$ 865,699			$ 694,688		
Net interest income		$ 13,275			$ 11,503	
Interest margin			3.20%			3.38%
Interest spread			2.74%			2.66%

The following rate volume analysis reflects the impact that changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities had on net interest income during the periods indicated. Information is provided in each category with respect to changes attributable to changes in volume (changes in volume multiplied by prior rate), changes attributable to changes in rates (changes in rates multiplied by prior volume) and the total net change. The change resulting from the combined impact of volume and rate is allocated proportionately to the change due to volume and the change due to rate.

	Three months ended June 30, 2008 vs 2007 Increase(decrease) in Interest Income/Expense Due to change in:			Six months ended June 30, 2008 vs 2007 Increase(decrease) in Interest Income/Expense Due to change in:		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)			(dollars in thousands)		
Interest earning assets:						
Loans	$ 3,641	$ (1,137)	$ 2,504	$ 7,189	$ (1,699)	$ 5,490
Federal funds sold and other cash equivalents	(563)	(389)	(952)	(811)	(458)	(1,269)
Investments	(74)	52	(22)	(107)	150	43
Total interest earning assets	3,004	(1,474)	1,530	6,271	(2,007)	4,264
Interest bearing liabilities:						
Deposits	$ 975	$ (1,047)	$ (72)	$ 2,660	$ (817)	$ 1,843
FHLB advances	369	(11)	358	612	(51)	561
Subordinated debt	-	(55)	(55)	-	(66)	(66)
Other borrowings	74	-	74	154	-	154
Total interest bearing liabilities	1,418	(1,113)	305	3,426	(934)	2,492
Net interest income	$ 1,586	$ (361)	$ 1,225	$ 2,845	$ (1,073)	$ 1,772

An increase in average interest earning assets of $126.0 million, or 18%, partially offset by a decrease in interest rates resulted in an increase in Bancorp's interest income of $1.5 million or 12% to $14.5 million for the quarter ended June 30, 2008 as compared to $13.0 million for the same period in 2007. Interest and fees on loans increased $2.5 million, or 22%, from $11.3 million for the quarter ended June 30, 2007 to $13.8 million for the quarter ended June 30, 2008. This increase was primarily the result of the increase in the average outstanding balances of the loan portfolio partially offset by the impact of a decrease in interest rates. Interest income on investments decreased by 3% due primarily to decreases in the average balance of investments resulting from the redemption of money market preferred equity securities, principal payments on mortgage-backed securities and the redemption or call of six securities. Interest income on federal funds sold and other cash equivalents decreased by $952,000, or 93%, as a result of a decrease in average balances in addition to a decrease in short-term interest rates. For the six months ended June 30, 2008, interest and dividend income was $28.8 million which represents an increase of $4.3 million, or 17%, as compared to interest and dividend income of $24.6 million for the same period last year. This increase was due primarily to a $195.7 million, or 35%, increase in average loan balances, which was partially offset by a decrease in interest rates and a decrease in average balances on investment securities.

Total interest expense for the quarter ended June 30, 2008 of $7.4 million represents an increase of $305,000, or 4%, as compared to the same period last year. This increase in interest expense is the result of higher average balances of interest bearing liabilities of $144.0 million or 24%. Average balances of deposit accounts increased $91.7 million, or 15%, resulting in an increase in interest expense of $975,000; decreases in interest rates resulted in a reduction in interest expense on deposits of $1.0 million. The net effect of these factors was a decrease in interest expense on deposits of $72,000, or 1%. Average FHLB advances increased significantly, resulting in a corresponding increase of $358,000 in FHLB interest expense; and the decrease in the index to which the junior subordinated debt is tied resulted in a decrease in interest expense of $55,000, or 32%. For the six months ended June 30, 2008, total interest expense increased $2.5 million, or 19%, to $15.5 million from $13.1 million for the six months ended June 30, 2007. This increase in interest expense was due to the above-mentioned reasons.

As a result of the above, Bancorp's net interest income increased $1.2 million, or 21%, to $7.1 million for the three months ended June 30, 2008 as compared to $5.9 million for the same period last year; the net interest margin for the three months ended June 30, 2008 was 3.37% as compared to 3.28% for the three months ended June 30, 2007. For the six months ended June 30, 2008, net interest income increased to $1.8 million, or 15%, to $13.3 million as compared to $11.5 million at June 30, 2007; the net interest margin for the six months ended June 30, 2008 was 3.20% as compared to 3.38% for the six months ended June 30, 2007.

For the three months ended June 30, 2008, Bancorp achieved an annualized return on average equity ("ROE") of 2.34% and an annualized return on average assets ("ROA") of 0.18%. The comparable ratios for the three months ended June 30, 2007 were an annualized ROE of 3.27% and an annualized ROA of 0.29%. For the six months ended June 30, 2008 and June 30, 2007, Bancorp realized an ROE of 1.62% and 3.23%, respectively and an ROA of 0.13% and 0.30%, respectively. Performance ratios for the second quarter of 2008 are not necessarily indicative of the results to be achieved for the remainder of the year.

Provision for Loan Losses

Based on management's most recent evaluation of the adequacy of the allowance for loan losses, the provision for loan losses charged to operations for the three and six months ended June 30, 2008 was $1,068,000 and $1,545,000, respectively, as compared to no provision for the three and six months ended June 30, 2007. The provision for this quarter was based upon the growth in the portfolio and management's assessment of the impact changes in national and local economic and business conditions have on the Bank's loan portfolio.

The Bank continues to maintain conservative underwriting standards including low loan to value ratio guidelines. There continues to be major displacement in the national and global credit markets. The secondary mortgage market continues to be impacted by economic events. These macro issues have now impacted local real estate markets. The marketing time of local real estate has expanded while prices are declining. Based on this uncertainty, management believes it will be making significant provisions to the allowance for loan losses if economic and market conditions do not improve.

An analysis of the changes in the allowance for loan losses is presented under "Allowance for Loan Losses."

Non-interest income

Non-interest income increased $235,000, or 45%, from $526,000 for the quarter ended June 30, 2007 to $761,000 for the quarter ended June 30, 2008. A decrease in the volume of loans placed with outside investors resulted in a decrease in mortgage brokerage and referral fee income of $120,000. Deposit account related fees and service charges for the three months ended June 30, 2008 increased $60,000, or 31%, as compared to the same period last year. This increase was primarily due to an increase in service charges assessed on deposit accounts resulting from increases in insufficient and uncollected funds transaction volumes. Other income increased $34,000 mainly as a result of increased debit card transactions and other miscellaneous income. The Bank-owned life insurance, which was purchased during the fourth quarter of 2007, generated income of $258,000 for the quarter ended June 30, 2008. The assets of the Bank-owned life insurance are invested in a separate account arrangement with a single insurance company which consists primarily of government sponsored agency mortgage-backed securities.

For the six months ended June 30, 2008, non-interest income increased $403,000, or 36%, to $1.5 million as compared to $1.1 million for the period ended June 30, 2007. This increase was due to the above-mentioned reasons.

Non-interest expenses

Non-interest expenses increased $817,000, or 15%, to $6.4 million for the quarter ended June 30, 2008 from $5.6 million for the quarter ended June 30, 2007. Salaries and benefits expense increased $269,000, or 9%, to $3.4 million for the quarter ended June 30, 2008 from $3.1 million for the quarter ended June 30, 2007. This increase was due to staffing additions for new branches that were opened during these periods, as well as anticipated growth in various ancillary departments. Occupancy and equipment expense, net, increased $293,000, or 29% to $1.3 million for the quarter ended June 30, 2008 from $1.0 million for the quarter ended June 30, 2007 due to the leasing of additional space for the new branches mentioned above, as well as depreciation expenses associated with outfitting the related branches. Data processing and other outside services decreased $29,000, or 6%, from $487,000 for the quarter ended June 30, 2007, to $458,000 for the quarter ended June 30, 2008. This was due to decreases in personnel placement fees and office temporaries and partially offset by an increase in data processing costs. Professional services increased $140,000 to $230,000 for the quarter ended June 30, 2008 from $90,000 for the quarter ended June 30, 2007. This was mainly due to increased audit and accounting fees, primarily related to the implementation of Section 404 of the Sarbanes-Oxley Act of 2002.

For the six months ended June 30, 2008, non-interest expenses increased $1.8 million, or 16%, to $12.6 million from $10.9 million for the same period in 2007. Salaries and benefits increased $488,000 to $6.7 million and occupancy and equipment expense, net increased $643,000 to $2.6 million. The reasons for these increases are the same as those cited above in the discussion comparing the quarter ended June 2008 to the quarter ended June 2007. Data processing and other outside services increased $26,000 to $924,000 due to new branch openings and marketing expenses increased $21,000 to $429,000 from a growth in promotional expenses. Other non-interest expenses increased $123,000 or 14% from $911,000 for the six months ended June 30, 2007 to $1.0 million for the six months ended June 30, 2008.

Income Taxes

Bancorp recorded income tax expense of $53,000 for the quarter ended June 30, 2008 as compared to $340,000 for the quarter ended June 30, 2007. For the six months ended June 30, 2008 and June 30, 2007, income tax expense was $105,000 and $667,000, respectively. The effective tax rate for the quarter and six months ended June 30, 2008 was 12% and 16%, respectively, which is based on Bancorp's annual projections for the year. The effective tax rate for both the quarter and six months ended June 30, 2007 was 39%. The change in effective tax rates is due primarily to the exclusion for income tax purposes of the earnings on the Bank-owned life insurance.

Liquidity

Bancorp's liquidity ratio was 9% and 19% at June 30, 2008 and June 30, 2007, 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 provide sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash operating requirements.

Capital

The following table illustrates Bancorp's regulatory capital ratios at June 30, 2008 and December 31, 2007 respectively:

	June 30, 2008	December 31, 2007
Total Risk-based Capital	11.30%	12.17%
Tier 1 Risk-based Capital	10.29%	11.30%
Leverage Capital	8.35%	9.42%

The following table illustrates the Bank's regulatory capital ratios at June 30, 2008 and December 31, 2007 respectively:

	June 30, 2008	December 31, 2007
Total Risk-based Capital	11.20%	12.03%
Tier 1 Risk-based Capital	10.19%	11.15%
Leverage Capital	8.27%	9.30%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. 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%. Based on the above ratios, the Bank is considered to be "well capitalized" at June 30, 2008 under applicable regulations.

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 options to maintain the "well capitalized" classification.

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 with 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.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based upon the nature of Bancorp’s business, the primary source of market risk is interest rate risk, which is the impact that changing interest rates have on current and future earnings.
In addition, Bancorp's loan portfolio is primarily secured by real estate in the company's market area. As a result, the changes in valuation of real estate could also impact Bancorp's earnings.

Qualitative Aspects of Market Risk

Bancorp’s goal is to maximize long term profitability while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price Bancorp’s assets and liabilities to maintain an acceptable interest rate spread while reducing the net effect of changes in interest rates. In order to accomplish this, the focus is on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing within the balance sheet. One method of achieving this balance is to originate variable rate loans for the portfolio and purchase short-term investments to offset the increasing short term re-pricing of the liability side of the balance sheet. In fact, a number of the interest bearing deposit products have no contractual maturity. Therefore, deposit balances may run off unexpectedly due to changing market conditions. Additionally, loans and investments with longer term rate adjustment frequencies are matched against longer term deposits and borrowings to lock in a desirable spread.

The exposure to interest rate risk is monitored by the Management Asset and Liability Committee consisting of senior management personnel. The committee meets on a monthly basis, but may convene more frequently as conditions dictate. The committee reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. This committee reports to the Board of Directors on a monthly basis regarding its activities. In addition to the Management Asset and Liability Committee, there is a Board Asset and Liability Committee (“ALCO”), which meet quarterly. ALCO monitors the interest rate risk analyses, reviews investment transactions during the period and determines compliance with Bank policies.

Quantitative Aspects of Market Risk

In order to manage the risk associated with interest rate movements, management analyzes Bancorp’s interest rate sensitivity position through the use of interest income simulation and GAP analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest sensitive.” An asset or liability is said to be interest sensitive within a specific time period if it will mature or reprice within that time period.

Management's goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations are completed quarterly and presented to ALCO. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. Changes to these assumptions can significantly affect the results of the simulations. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates.

Simulation analysis is only an estimate of Bancorp's interest rate risk exposure at a particular point in time. Management regularly reviews the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

Management has established interest rate risk guidelines measured by behavioral GAP analysis calculated at the one year cumulative GAP level and a net interest income and economic value of portfolio equity simulation model measured by a 200 basis point interest rate shock.

The table below sets forth an approximation of Bancorp's exposure to changing interest rates using management's behavioral GAP analysis and as a percentage of estimated net interest income and estimated net portfolio value using interest income simulation. The calculations use projected repricings of assets and liabilities at June 30, 2008 and December 31, 2007 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments.

	Basis Points	Interest Rate Risk Guidelines	June 30, 2008	December 31, 2007
GAP percentage total		+/- 15%	5.35%	-8.33%
Net interest income	200	+/- 15%	0.85%	-1.05%
	-200	+/- 15%	-4.76%	-0.59%
Net portfolio value	200	+/- 25%	-2.48%	-12.60%
	-200	+/- 25%	-4.68%	7.35%

Bancorp's net interest income has benefited from the growth in the balance sheet during 2008. The increase in net interest income is due to an increase in the loan portfolio combined with a decrease in interest rates paid on deposits which resulted in an overall lower cost of funds. All of these factors contributed to higher levels of net interest income and net portfolio value in the base case scenario at June 30, 2008 as compared to December 31, 2007 using Bancorp's interest income simulation model. Bancorp's interest rate risk position was within all of its interest rate risk guidelines at June 30, 2008. The interest rate risk position is monitored on an ongoing basis and management reviews strategies designed to maintain all categories within guidelines.

The table below sets forth examples of changes in estimated net interest income and the estimated net portfolio value based on projected scenarios of interest rate increases and decreases. The analyses indicate the rate risk embedded in Bancorp's portfolio at the dates indicated should all interest rates instantaneously rise or fall. The results of these changes are added to or subtracted from the base case; however, there are certain limitations to these types of analyses. Rate changes are rarely instantaneous and these analyses may also overstate the impact of short-term repricings.

Net Interest Income and Economic Value
Summary Performance

June 30, 2008

	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	27,841	236	0.85%	104,797	(2,668)	-2.48%
+ 100	27,720	115	0.42%	107,142	(323)	-0.30%
BASE	27,605			107,465		
- 100	26,974	(631)	-2.29%	105,010	(2,455)	-2.28%
- 200	26,291	(1,314)	-4.76%	102,437	(5,028)	-4.68%

December 31, 2007

	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	24,969	(265)	-1.05%	69,103	(9,966)	-12.60%
+ 100	25,138	(96)	-0.38%	73,971	(5,098)	-6.45%
BASE	25,234			79,069		
- 100	25,316	82	0.32%	83,213	4,144	5.24%
- 200	25,084	(150)	-0.59%	84,881	5,812	7.35%

Item 4: 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, 2008 that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

PART II - OTHER INFORMATION.

Item 1A: Risk Factors

During the three months ended June 30, 2008, there were no material changes to the risk factors relevant to Bancorp's operations, which are described in the Annual Report on Form 10-K for the year ended December 31, 2007.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

(a) On June 25, 2008, the Company issued 3,270 shares of its common stock to its five outside directors. Pursuant to a policy adopted by the Board of Directors, outside directors serving on the board receive an annual award of the Company's common stock at each year's annual meeting valued at $10,000 based on the last reported sale price on the trading day immediately preceding the Annual Meeting. The award is prorated for directors who have served less than a full year. The shares have not been registered under the Securities Act of 1933 and therefore were issued in a private placement transaction exempt from registration under Section 4(2) of the Securities Act.

For purposes of this transaction, the Company shares were valued at $15.27 per share, for a total value of $49,933.

(b) Not applicable

(c) Not applicable

(d) 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 18, 2008.

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

(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	4,089,917	356,173
John J. Ferguson	4,320,517	125,513
Brian A. Fitzgerald	4,368,813	77,277
John A. Geoghegan	4,319,077	127,013
L. Morris Glucksman	4,371,283	74,807
Charles F. Howell	4,088,417	357,673
Michael F. Intrieri	4,368,028	78,062
Robert F. O'Connell	4,088,417	357,673
Philip W. Wolford	4,082,597	363,493

There were no abstentions or broker non-votes for any of the nominees.

(ii) The consideration of a proposal to ratify the appointment of McGladrey & Pullen, LLP as independent auditors for Bancorp for the year ending December 31, 2008.

For	Against	Abstain
4,258,279	185,411	2,400

(d) Not applicable.

Item 6: Exhibits

No.	Description
2	Agreement and Plan of Reorganization dated as of June 28, 1999 between Bancorp and the Bank (incorporated by reference to Exhibit 2 to Bancorp’s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
3(i)	Certificate of Incorporation of Bancorp, (incorporated by reference to Exhibit 3(i) to Bancorp’s Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
3(i)(A)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated July 16, 2004 (incorporated by reference to Exhibit 3(i)(A) to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599)).
3(i)(B)	Certificate of Amendment of Certificate of Incorporation of Patriot National Bancorp, Inc. dated June 15, 2006 (incorporated by reference to Exhibit 3(i)(B) to Bancorp’s Quarterly Report of Form 10-Q for the quarter ended September 30, 2006 (commission File No. 000-29599)).
3(ii)	Amended and Restated By-laws of Bancorp (incorporated by reference to Exhibit 3.2 to Bancorp’s Current Report on Form 8-K dated December 26, 2007 (Commission File No. 1-32007))
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, and the First Amendment to the Rights Agreement dated January 23, 2008 filed as Exhibit 4.1 to Bancorp’s Report on Form 8-K dated January 24, 2008 which are incorporated herein by reference.
10(a)(1)	2001 Stock Appreciation Rights Plan of Bancorp (incorporated by reference to Exhibit 10(a)(1) to Bancorp’s Annual Report on Form 10-KSB for the year ended December 31, 2001 (Commission File No. 000-29599)).

No.	Description
10(a)(3)	Employment Agreement, dated as of October 23, 2000, as amended by a First Amendment, dated as of March 21, 2001, among the Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(4) to Bancorp’s Annual Report on Form 10-KSB for the year ended December 31, 2000 (Commission File No. 000-29599)).
10(a)(4)	Change of Control Agreement, dated as of January 1, 2007 among Angelo De Caro, and Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(4) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(5)	Employment Agreement dated as of January 1, 2008 among Patriot National Bank, Bancorp and Robert F. O’Connell (incorporated by reference to Exhibit 10(a)(5) to Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2007 (Commission File No. 000-29599)).
10(a)(6)	Change of Control Agreement, dated as of January 1, 2007 among Robert F. O’Connell and Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(6) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(8)	Employment Agreement dated as of January 1, 2008 between Patriot National Bank and Marcus Zavattaro (incorporated by reference to Exhibit 10(a)(8) to Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2007 (Commission File No. 000-29599)).
10(a)(9)	License agreement dated July 1, 2003 between Patriot National Bank and L. Morris Glucksman (incorporated by reference to Exhibit 10(a)(9) to Bancorp’s Annual Report on Form 10-KSB for the year ended December 31, 2003 (Commission File No. 000-29599)).
10(a)(10)	Employment Agreement dated as of January 1, 2007 among Patriot National Bank, Bancorp and Charles F. Howell (incorporated by reference to Exhibit 10(a)(10) to Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).

No.	Description
10(a)(11)	Change of Control Agreement, dated as of January 1, 2007 among Charles F. Howell, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(11) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(12)	2005 Director Stock Award Plan (incorporated by reference to Exhibit 10(a)(12) to Bancorp's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (Commission File No. 000-295999)).
10(a)(13)	Change of Control Agreement, dated as of January 1, 2007 between Martin G. Noble and Patriot National Bank (incorporated by reference to Exhibit 10(a)(13) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(a)(14)	Change of Control Agreement, dated as of January 1, 2007 among Philip W. Wolford, Patriot National Bank and Bancorp (incorporated by reference to Exhibit 10(a)(14) to Bancorp's Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 000-29599)).
10(c)	1999 Stock Option Plan of the Bank (incorporated by reference to Exhibit 10(c) to Bancorp's Current Report on Form 8-K dated December 1, 1999 (Commission File No. 000-29599)).
14	Code of Conduct for Senior Financial Officers (incorporated by reference to Exhibit 14 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2004 (Commission File No. 000-29599).
21	Subsidiaries of Bancorp (incorporated by reference to Exhibit 21 to Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 1999 (Commission File No. 000-29599)).
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 Certifications

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 7, 2008