PATRIOT NATIONAL BANCORP INC
Form PRE 14A
May 21, 2010

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission only (as permitted by Rule 14a-6(e)(2))

[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Under Rule 14a-12

Patriot National Bancorp, Inc.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4) Proposed maximum aggregate value of transaction:
(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

PATRIOT NATIONAL BANCORP, INC.
900 Bedford Street
Stamford, Connecticut 06901
(203) 324-7500

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To be held on [___________ ___, 2010]

To the Shareholders of
Patriot National Bancorp, Inc.:

A Special Meeting of Shareholders of Patriot National Bancorp, Inc. ("Patriot" or the "Company") will be held on [___________ ___, 2010], at 9:00 a.m. local time, at The Hyatt Regency, 1800 East Putnam Avenue, Old Greenwich, Connecticut 06870, for the following purposes:

1. To approve the amendments to Patriot's Certificate of Incorporation to reduce the par value of a share of Company common stock from $2.00 per share to $0.01 per share and to increase the number of authorized shares of Company common stock from 60,000,000 to 100,000,000 shares.

2. To approve the Securities Purchase Agreement between Patriot, Patriot National Bank and PNBK Holdings LLC ("Holdings") and the issuance and sale by Patriot of approximately 33,333,333 shares of Company common stock (as adjusted) to Holdings.

Shareholders of record at the close of business on [__________ ___, 2010] will be entitled to vote at the Special Meeting or at any adjournment of the Special Meeting.

Patriot's Board hopes that you will attend the meeting. Whether or not you plan to attend, please complete, date, sign and return the enclosed proxy card in the accompanying envelope. Your prompt response will greatly facilitate arrangements for the meeting, and your cooperation will be appreciated.

By Order of the Board of Directors

Angelo De Caro
Chairman and Chief Executive Officer

Stamford, Connecticut
________ ___, 2010

PATRIOT NATIONAL BANCORP, INC.

900 Bedford Street
Stamford, Connecticut 06901
(203) 324-7500

__________

PROXY STATEMENT

Patriot's Board of Directors is soliciting your proxy with the enclosed proxy card for use at a Special Meeting of Shareholders of Patriot National Bancorp, Inc. to be held on [___________ ___, 2010] at 9:00 a.m. at The Hyatt Regency, 1800 East Putnam Avenue, Old Greenwich, Connecticut 06870. This proxy statement and accompanying proxy card are first being sent or given to shareholders on or about [_________], 2010. Patriot National Bancorp, Inc. (“Patriot” or the “Company”) is the bank holding company of Patriot National Bank (the “Bank”).

The Special Meeting has been called for the following purposes: (i) to approve the amendments to Patriot’s Certificate of Incorporation to reduce the par value of a share of Company common stock from $2.00 per share to $0.01 per share and to increase the number of authorized shares of Company common stock from 60,000,000 to 100,000,000 shares (Proposal 1) and (ii) to approve the Securities Purchase Agreement between Patriot, Patriot National Bank and PNBK Holdings, LLC and the issuance and sale to Holdings of approximately 33,333,333 shares of Company common stock (as adjusted) (collectively, the “issuance and sale to Holdings” or the “Holdings transaction”) (Proposal 2).

QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

This Question and Answer Section is meant to facilitate the reader’s understanding of the proposals described in this proxy statement. However, each reader should read the proxy statement in its entirety and this Section is not meant to provide full information on these topics.

Why am I receiving these materials?

Patriot has sent you these proxy materials because Patriot's Board of Directors is soliciting your proxy to vote at a special meeting of shareholders, including at any adjournments of the meeting. You are invited to attend the Special Meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

Who can vote at the Special Meeting?

You will be entitled to vote your shares of Company common stock at the Special Meeting if you were a shareholder of record at the close of business on [___________ __, 2010] (the “Record Date”). As of the Record Date, 4,762,727 shares of common stock were outstanding and entitled to vote at the Special Meeting.

Each share of common stock outstanding as of the close of business on the Record Date, is entitled to one vote. If you sign your proxy card with no further instructions, then proxies will be voted in favor of the proposals.

What am I voting on?

Patriot is asking you to approve (i) the amendments to Patriot’s Certificate of Incorporation to reduce the par value of a share of Company common stock from $2.00 per share to $0.01 per share and to increase the number of authorized shares of Company common stock from 60,000,000 to 100,000,000 shares and (ii) the issuance and sale to Holdings of approximately 33,333,333 shares of Company common stock (as adjusted).

Why is Patriot proposing to issue additional shares of common stock?

Patriot and the Bank are in need of additional capital. From 2008 through mid-2009, we had been actively engaged in soliciting interest from investors with the assistance of our advisors. The Bank is subject to a formal agreement (the “OCC Agreement”) with its regulator, the Office of the Comptroller of the Currency (the “OCC”). Among other things, the OCC Agreement requires the Bank to prepare and adhere to a capital plan and a profit plan. This issuance and the capital raised by the issuance are expected to satisfy the OCC as to the adequacy of the Bank's capital.

Why is Patriot proposing to issue shares to Holdings?

On December 16, 2009, Patriot and Holdings entered into a securities purchase agreement (the “Securities Purchase Agreement”) providing for the sale and issuance by Patriot to Holdings and the purchase by Holdings of approximately 33,333,333 shares of Company common stock (as adjusted) at a price of $1.50 per share, subject to certain closing conditions, including the approval by Patriot’s shareholders and regulators. The Holdings investment would infuse up to $50,000,000 of capital into Patriot. Substantially all of the net proceeds of this issuance will be downstreamed from Patriot to the Bank as additional capital.

The Securities Purchase Agreement also provides for potential shareholder loan recovery dividends (“Shareholder Loan Recovery Dividends” or “SLRD”) that may be made to shareholders of Patriot as of certain record dates selected by Patriot (the “Eligible Shareholders”). The SLRD is a vehicle to provide Eligible Shareholders with the benefit of a portion of the recoveries received by Patriot after June 30, 2009 with respect to the loans charged off on the Bank's books as of June 30, 2009. See “PROPOSAL 2: APPROVAL OF ISSUANCE AND SALE TO HOLDINGS OF PATRIOT COMMON STOCK”.

Who is Holdings?

Holdings is a private investment company formed for the sole purpose of making this investment in Patriot. The managing member of Holdings is PNBK Sponsor LLC, which in turn is controlled by Michael A. Carrazza. For more information about Holdings and Mr. Carrazza, see "PROPOSAL 2: APPROVAL OF ISSUANCE AND SALE TO HOLDINGS OF PATRIOT COMMON STOCK - - Summary of Holdings Transaction - - Holdings".

Why is Patriot proposing to amend its Certificate of Incorporation?

Patriot's Certificate of Incorporation authorizes 61,000,000 shares, consisting of 60,000,000 shares of common stock, par value $2.00 per share, and 1,000,000 shares of serial preferred stock, without par value. In connection with the proposed issuance to Holdings, Patriot has agreed to sell and Holdings has agreed to purchase approximately 33,333,333 shares of common stock (as adjusted) at a per share purchase price of $1.50. A generally accepted principle in corporate law precludes the sale of common stock by a company for less than the stated par value of the stock. An amendment to reduce the stated par value of the Company's common stock, is, therefore, necessary to proceed with the issuance to Holdings because the per share purchase price ($1.50) is below the stated par value per share of Company common stock ($2.00). The reduction in par value will have no effect on the value of your Patriot shares.

Pursuant to the Securities Purchase Agreement, Holdings may, in its discretion, elect to increase or decrease the aggregate dollar amount of its investment in Patriot by increasing or decreasing the corresponding number of shares of Company common stock that Holdings will purchase, provided that Patriot will be "Well Capitalized" under applicable regulatory standards immediately following the closing of the Holdings transaction; provided further, however, in no event shall such adjustments result in Holdings owning more than 94.9% of the issued and outstanding shares of Patriot immediately following the consummation of the Holdings transaction. In order to ensure that Patriot has a sufficient number of authorized shares to accommodate Holding's right to increase its investment as well as to be able to issue shares under the proposed Shareholder Loan Recovery Dividend, an amendment to Patriot's Certificate of Incorporation is necessary to increase the number of authorized shares of common stock.

What will be Holdings' ownership interest in Patriot if the investment is consummated?

Pursuant to the Securities Purchase Agreement, it is anticipated that the Company will issue approximately 33,333,333 shares of Company common stock to Holdings. Based on the current outstanding shares of common stock, Holdings would own approximately 87.5% of the total outstanding shares of Company common stock. This ownership interest, however, may be increased or decreased, as described in this proxy statement. Upon consummation of the closing, Holdings will have control in determining the outcome of any corporate transaction or other matter submitted to Patriot's shareholders for approval, including the election of directors and approval of mergers, consolidations and the sale of all or substantially all of Patriot's assets. For more information on Holdings, see "PROPOSAL 2: APPROVAL OF ISSUANCE AND SALE TO

HOLDINGS OF PATRIOT COMMON STOCK - - Summary of Holdings Transaction - - Holdings."

Why is Patriot seeking shareholder approval of the amendments to Patriot's Certificate of Incorporation and the issuance and sale to Holdings in the proposals?

Amendments to Certificate of Incorporation

Under Connecticut law, shareholder approval is required for certain amendments to a Connecticut corporation's certificate of incorporation. The proposed amendments to reduce the stated par value of shares and to increase the number of authorized shares require shareholder approval.

Issuance and Sale to Holdings

Patriot's shares are listed on the NASDAQ Global Market. Issuances of Company common stock are subject to the NASDAQ Marketplace Rules. Under NASDAQ Marketplace Rule 5635(d)(2), shareholder approval is required prior to Patriot's issuance of the shares of Company common stock because the aggregate number of shares being issued would exceed 20% of the total outstanding shares of common stock for less than the greater of book value or market value. Additionally, under NASDAQ Marketplace Rule 5635(b), shareholder approval is required prior to the issuance of the shares to Holdings because such issuance will result in a change of control of Patriot. A change of control is generally deemed to have occurred, if after the issuance, the holder holds 20% or more of the issuer's outstanding number of shares. In the event Patriot does not receive shareholder approval, it reserves the right to apply to NASDAQ under the "financial viability exception" to the NASDAQ shareholder approval requirements requesting approval of the issuance described in this proxy statement by NASDAQ without shareholder approval. Upon the issuance of approximately 33,333,333 shares of Company common stock to Holdings, and assuming no other issuances of shares of Company common stock and Holdings does not exercise its right to increase or decrease the aggregate number of shares purchased, based on the currently outstanding shares, Holdings would own approximately 87.5% of Patriot's total outstanding shares. See "PROPOSAL 2: APPROVAL OF ISSUANCE AND SALE TO HOLDINGS OF PATRIOT COMMON STOCK - Reasons for Soliciting Shareholder Approval".

Why is Patriot's Board of Directors recommending approval of the amendments to Patriot's Certificate of Incorporation and the Holdings transaction?

The Board of Directors of Patriot considered many factors in developing its recommendations to the shareholders to vote in favor of the amendments to Patriot's Certificate of Incorporation and the Holdings transaction, including the following:

- The need to raise capital in the short term to satisfy the OCC and to allow for the Bank to operate with a level of capital that allows for reasonable growth.
- The difficulties that Patriot and many other banks generally have experienced in accessing the capital markets.

- The extensive due diligence conducted by Holdings and its early contacts with the OCC and the Federal Reserve Board ("FRB").
- The results of prior extensive efforts by the Company and its advisors to identify either capital investors or merger partners on terms preferable to those offered by Holdings.
- The terms of the Securities Purchase Agreement and other documents and agreements executed or to be executed in connection with the Holdings transaction and the consideration that would be payable to Patriot.
- The potential benefits of the Shareholder Loan Recovery Dividends to shareholders of Patriot.
- The consequences of failure to infuse sufficient additional capital into Patriot in a timely manner.

After considering these and other factors as discussed in more detail below, Patriot's Board of Directors has concluded that the amendments to Patriot's Certificate of Incorporation are necessary in order to proceed with the Holdings issuance and that the issuance and sale to Holdings of Company common stock is not only in the best interests of Patriot and its shareholders but also critical to the future of Patriot. See "PROPOSAL 2: APPROVAL OF ISSUANCE AND SALE TO HOLDNGS OF PATRIOT COMMON STOCK - Patriot's Board of Directors' Recommendation". Accordingly, the Board of Directors recommends the approval of the proposals.

What happens if the amendments to Patriot's Certificate of Incorporation and the Holdings transaction are approved?

If the amendments to Patriot's Certificate of Incorporation are approved, the reduction in par value and the increase in the number of authorized shares will become effective upon the filing of an amendment to Patriot's Certificate of Incorporation with the Secretary of State of the State of Connecticut. If the amendments to Patriot's Certificate of Incorporation and the Holdings transaction are approved and all other conditions to closing are satisfied or waived (e.g., consent of all applicable regulatory authorities), Patriot expects to close on the issuance and sale to Holdings on or around July 30, 2010 or as soon as practicable thereafter.

What happens if the amendments to Patriot's Certificate of Incorporation are not approved?

If the proposal to approve the amendments to Patriot's Certificate of Incorporation to reduce the par value of Company common stock and to increase the number of authorized shares is not approved, Patriot will not be able to complete the closing with Holdings.

What happens if the Holdings transaction is not approved?

If the Holdings transaction is not approved, Patriot will not be able to complete the closing with Holdings unless it seeks and obtains a "financial viability" determination by NASDAQ and Holdings waives the condition to closing that Patriot shareholders approve the Holdings transaction. Patriot believes that Holdings would not elect to proceed with a purchase of Company common stock in an amount that would not require shareholder approval. In the event Patriot shareholders do not approve the Holdings transaction at the Special Meeting, Holdings may elect to terminate the Securities Purchase Agreement and Patriot will be obligated to pay a termination fee (described in more detail below). If Patriot is unable to raise significant capital in the near term without the Holdings investment, the Bank may fail to meet certain capital ratios required under applicable regulations and certain OCC benchmarks. Patriot cannot predict with any certainty the consequences of such failure but such failure, and the Bank's inability to raise capital from an alternative source, could potentially lead to the Bank being subject to additional enforcement proceedings, including, on a worst case basis, termination of the Bank's federal deposit insurance and/or a closure of the Bank. See "PROPOSAL 2: APPROVAL OF ISSUANCE AND SALE TO HOLDINGS OF PATRIOT COMMON STOCK - Consequences of Outcome of Shareholder Vote".

Am I entitled to appraisal rights?

No. Patriot's shareholders do not have dissenters' rights of appraisal with respect to the proposals to be considered at the Special Meeting under Connecticut law.

Did Patriot receive a fairness opinion in connection with the proposed issuance and sale?

Yes. Patriot retained Ostrowski & Company, Inc. ("O&Co") in connection with a proposed capital raise and received a fairness opinion from O&Co in connection with the proposed issuance and sale. See "PROPOSAL 2: APPROVAL OF ISSUANCE AND SALE TO HOLDINGS OF PATRIOT COMMON STOCK – Fairness Opinion & Analysis by Ostrowski & Company, Inc."

How does Patriot's Board of Directors recommend that I vote?

Patriot's Board recommends that you vote in favor of the proposals. After careful consideration, Patriot's Board of Directors has approved the proposed amendments to Patriot's Certificate of Incorporation to reduce the stated par value of Company common stock and to increase the number of authorized shares of Company common stock and the Holdings transaction, and has determined that such actions are advisable and in the best interests of Patriot and its shareholders.

How can I find out the results of the voting at the meeting?

Preliminary voting results will be announced at the Special Meeting. Final voting results will be published in a Form 8-K following the Special Meeting.

How do I vote?

You can vote your shares either by attending the Special Meeting and voting in person or by voting by proxy. If you choose to vote by proxy, please complete, date, sign and return the enclosed proxy card. The proxies named in the enclosed proxy card will vote your shares as you have instructed.

Even if you expect to attend the Special Meeting, please complete and mail your proxy card in order to assure representation of your shares. If you attend the Special Meeting, you can always revoke your proxy by voting in person. No postage is necessary if the proxy card is mailed in the United States.

What is the quorum requirement?

A majority of the outstanding shares of common stock entitled to vote must be present at the Special Meeting, either in person or by proxy, to constitute a quorum. Abstentions and broker non-votes received by Patriot will be counted for purposes of determining whether a quorum is present at the Special Meeting. If a quorum is not present, the Special Meeting may be adjourned until a quorum is obtained.

How many votes are needed to approve the proposals?

The proposal to approve the amendments to Patriot's Certificate of Incorporation to reduce the par value of a share of Company common stock from \$2.00 per share to \$0.01 per share and to increase the number of authorized shares of Company common stock from 60,000,000 to 100,000,000 shares each must receive "For" votes from the holders of a majority of the total votes cast on the proposal by shares present either in person or by proxy at the Special Meeting. Abstentions and broker-non votes will not be "cast" for these purposes and will have no effect on the outcome of these proposals.

The proposal to approve the Holdings transaction of shares of Company common stock also must receive "For" votes from the holders of a majority of the total votes cast on the proposal by shares present either in person or by proxy at the Special Meeting. Abstentions and broker-non votes will not be "cast" for these purposes and will have no effect on the outcome of this proposal.

What are broker non-votes?

Broker non-vote occurs when a beneficial owner of shares held in "street name" does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed "non-routine". Proposals 1 and 2 to be voted upon at the Special Meeting are considered to be "non-routine" matters. Therefore, if your shares are held in street name, you must instruct your broker how you wish it to vote with respect to Proposals 1 and 2 or your vote will not be counted.

How are votes counted?

Votes will be counted by the inspector of elections appointed for the meeting, who will separately count "For" and "Against" votes, abstentions and broker non-votes.

Can I revoke my proxy?

Yes. You may revoke the authority granted by your executed proxy card at any time before Patriot exercises it by notifying Patriot's Corporate Secretary in writing (900 Bedford Street, Stamford, Connecticut 06901), by executing a new proxy card bearing a later date and delivering the new executed proxy card to Patriot's Corporate Secretary, or by voting in person at the Special Meeting.

Who is paying for this proxy solicitation?

Patriot will bear all costs of soliciting proxies. Patriot will request that brokers, custodians and fiduciaries forward proxy soliciting material to the beneficial owners of stock held in their names, for which Patriot will reimburse their out-of-pocket expenses. In addition to solicitations by mail, Patriot's directors, officers and employees, without additional remuneration, may solicit proxies by telephone and/or personal interviews.

What does it mean if I receive more than one set of proxy materials?

If you receive more than one set of proxy materials, your shares may be registered in more than one name or in different accounts. Please follow the voting instructions on the proxy cards in the proxy materials to ensure that all of your shares are voted.

Who can help answer my questions?

If you would like additional copies of this document at no charge, of if you want to ask any questions about the proposals, you should contact:

Angelo De Caro, CEO or Charles F. Howell, President
Patriot National Bancorp, Inc.
900 Bedford Street
Stamford, Connecticut 06901
(877) 356-2223

Will a representative of McGladrey & Pullen LLP, Patriot's independent auditors be present at the Special Meeting?

A representative of McGladrey & Pullen, the Company's independent auditors, is expected to be present at the Special Meeting and will respond to appropriate questions and have an opportunity to make a statement if he or she desires to do so.

PROPOSAL 1:

AMENDMENTS TO PATRIOT'S CERTIFICATE OF INCORPORATION TO REDUCE THE PAR VALUE OF COMMON STOCK FROM $2.00 TO $0.01 AND TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

Patriot's Board of Directors approved, subject to shareholder approval, amendments to Section (a) of Article II of Patriot's Certificate of Incorporation, as amended to date, reducing the par value of common stock from $2.00 per share to $0.01 per share and increasing the number of shares of common stock from 60,000,000 to 100,000,000 shares. Patriot's Board of Directors recommends that you consider and approve these proposed amendments.

Patriot's Board of Directors considers the proposed amendments to be in the best interests of Patriot and its shareholders because it will allow for the issuance and sale to Holdings of shares of Company common stock and it will ensure that Patriot has a sufficient number of shares of Company common stock to consummate the issuance and sale to Holdings and be able to issue Shareholder Loan Recovery Dividends. Patriot has agreed to issue and sell and Holdings has agreed to purchase shares of Company common stock at a per share purchase price of $1.50. An amendment to reduce the stated par value of Company common stock is, therefore, necessary to proceed with the Holdings transaction because the per share purchase price ($1.50) is below the stated par value per share of Company common stock ($2.00). Additionally, pursuant to the Securities Purchase Agreement, Holdings, may, in its discretion, elect to increase the aggregate dollar amount of its investment by increasing the corresponding number of Company common stock that Holdings will purchase, but in no event shall such adjustment result in Holdings owning more than 94.9% of the issued and outstanding shares of Patriot immediately following the consummation of the Holdings transaction (or 88,624,000 shares). In order to ensure that Patriot has sufficient number of shares to accommodate this right and to be able to issue Shareholder Loan Recovery Dividends, an increase in the number of authorized Company common stock to 100,000,000 shares is necessary.

Historically, the concept of par value served to protect creditors and senior security holders by ensuring that a company received at least the par value as consideration for issuance of stock. Over time, the concept of par value has lost much of its significance. Many companies that incorporate today use a nominal par value or have no par value. The reduction in the par value of Company common stock will have no effect on the rights of holders of Company common stock except for the minimum amount per share Patriot may receive upon the issuance of authorized but unissued shares. In addition, the reduction in par value will not have an effect on shareholders who receive Shareholder Loan Recovery Dividends. See "PROPOSAL 2: APPROVAL OF ISSUANCE AND SALE TO HOLDINGS OF PATRIOT COMMON STOCK – Shareholder Loan Recovery Dividends". The reduction in par value would not change the number of authorized shares of Company common stock. The reduction in par value will not change the value of Patriot shares currently issued and outstanding.

Shareholder approval of the amendments will not assure that Patriot will be able to consummate the Holdings transaction; however, the approval of the amendments is necessary in order to proceed with the Holdings transaction. Shareholder approval of the amendments will not cause Holdings to exercise its right to increase its ownership level but is necessary in order to ensure that Patriot has sufficient shares in such an event.

Patriot’s Certificate of Incorporation authorizes 61,000,000 shares, consisting of 60,000,000 shares of common stock, par value $2.00 per share, and 1,000,000 shares of serial preferred stock, without par value. As of the Record Date, 4,762,727 shares of common stock were outstanding. No shares of preferred stock have been issued. Your shares do not carry preemptive rights to maintain your current ownership percentage by having the right to purchase additional stock if additional shares are issued later. Therefore, as described in more detail below, the issuance and sale to Holdings of Company common stock will dilute the percentage ownership of existing shareholders and additional future issuances of common stock could further dilute the percentage ownership of existing shareholders.

The text of these proposed amendments to Patriot’s Certificate of Incorporation is set forth in Appendix A to this proxy statement.

If these amendments are approved, the reduction in par value and increase in the number of authorized shares will become effective upon the filing of an amendment to Patriot’s Certificate of Incorporation with the Secretary of State of the State of Connecticut.

Vote Required

The majority of votes cast must be cast “For” this proposal to approve the proposed amendments to Patriot’s Certificate of Incorporation.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” PROPOSAL 1.

## PROPOSAL 2:

## APPROVAL OF ISSUANCE AND SALE TO HOLDINGS OF PATRIOT COMMON STOCK

Title and Amount of Securities to be Issued

If Patriot’s shareholders approve Proposals 1 and 2 and other conditions to closing are satisfied, Patriot will issue shares of Company common stock, par value $0.01 per share (assuming Proposal 1 is approved) to Holdings. Shares of Company common stock do not have preemptive rights.

Pursuant to the Securities Purchase Agreement, it is anticipated that the Company will issue approximately 33,333,333 shares of Company common stock to Holdings. This number, however, may be increased or decreased. Pursuant to the Securities Purchase Agreement, Holdings may, in its own discretion, elect to increase (subject to certain limitations) or decrease the aggregate dollar amount of its investment in Patriot by increasing or decreasing the corresponding number of shares of Company common stock that Holdings will purchase, provided that Patriot will be "Well Capitalized" under applicable regulatory standards immediately following the closing of the Holdings investment. As of the date of this proxy statement, Holdings has not exercised this right.

Reasons for the Holdings transaction

In 2007, management and the Board began to explore raising capital by participating in the issuance of trust preferred securities through a pooled transaction in order to support the continued growth of the Company. The trust preferred market became very weak due to increasing problems in the credit and capital markets in the second half of 2007. As a result of these conditions, the Company did not proceed with a trust preferred transaction.

Beginning in the spring of 2008, the Board engaged in detailed and significant discussions regarding the effects, and possible further consequences to the Bank, resulting from the continued economic slowdown experienced throughout the country, in particular in the Bank’s market area of Fairfield County, Connecticut and the New York metropolitan area. Beginning in 2007 and worsening through 2008 and 2009 and into 2010, the general economic conditions and specific business conditions in the United States deteriorated. This has resulted in increases in loan delinquencies, problem assets and foreclosures and declines in the value and collateral associated with the Bank’s loans. The Bank's difficulties resulted in a deteriorating capital position. This was of concern to the Board and the OCC.

The Board and management pursued various paths to attempt to address the need to raise capital including capital-raising activities. Various factors affected these alternate paths, including, the speed and level at which (1) the lower Fairfield County, Connecticut real estate market and metropolitan New York City economic environment was deteriorating; (2) the general banking market was deteriorating; and (3) Patriot’s loan portfolio was deteriorating as well as the composition of Patriot’s capital base. Patriot suffered significant losses due to this general economic decline. For example, during an unprecedented year of financial disruption and market volatility, the Company experienced a net loss of $23.9 million for the year ended December 31, 2009 compared to net loss of $7.1 million for the year ended December 31, 2008 and increased its provision for loan losses from $11.3 million for the year ended December 31, 2008 to $13.1 million for the year ended December 31, 2009. Total assets decreased $47.0 million from $913.4 million at December 31, 2008 to $866.4 million at December 31, 2009. Total loans decreased $143.4 million, or 18%, from $788.6 million at December 31, 2008 to $645.2 million at December 31, 2009. During 2009 and continuing in 2010, Patriot has aggressively worked at lowering the risk profile within the portfolio. During 2009, 251 loans totaling approximately $175.3 million were paid off. Of the 251 loans, the Bank incurred losses on seven customers totaling approximately $2.9 million, or 1.59%, of the outstanding loan balance.

Various parties were approached in these capital raising efforts. Two parties expressed an interest to merge with the Bank and conducted on-line due diligence reviews of Patriot, however, they decided not to proceed. One other party performed detailed due diligence but elected not to proceed. Additionally, since the fall of 2008, Patriot and its advisors have been aggressively pursuing various strategic and capital alternatives, with over 25 potential investors approached. During late 2008, Patriot entered into a term sheet with one potential investor who elected to postpone its investment pending the results of negotiations with additional potential investors. This potential investor has since indicated that it does not wish to proceed with negotiations as the lead investor. During the early summer of 2009, Patriot was actively engaged with two potential investors, including Holdings, with extensive due diligence being conducted by both parties. The other investor chose not to continue discussions with Patriot. In general, the potential partners expressed concern regarding the size of Patriot's construction loan portfolio, the level of non-performing assets (NPAs) and the anticipated trajectory of its NPAs as well as the general economic and market decline experienced throughout the country and the Bank's market area.

Holdings remained interested in pursuing the investment and Patriot and Holdings executed a letter of intent in July of 2009. Following execution of the letter of intent and continuing into late September 2009, Holdings and Patriot entered into extensive negotiations and document drafting to memorialize Holdings' investment in Patriot. Prior to signing a definitive agreement with Holdings, Patriot received an unsolicited offer from another investor for up to $50 million of additional capital in return for a significant, controlling interest in Patriot. Patriot's Board of Directors determined that it should further analyze and evaluate the unsolicited offer.

Following these events, Holdings filed a complaint with the United States District Court of New York and a complaint in the State of Connecticut Superior Court – Stamford Judicial District alleging, among other things, that Patriot and Holdings had a binding and enforceable agreement for Holdings' investment in Patriot and that Patriot was in breach of the letter of intent, respectively. Patriot vigorously defended against these actions and through settlement discussions Holdings again expressed its interest in Patriot for the same price as the offer that was extended in July. In late November 2009, Holdings and Patriot resumed negotiations. On December 4, 2009, Carrazza, Patriot and Holdings entered into a Standstill Agreement pursuant to which the parties agreed to stop, temporarily and subject to the terms of the Standstill Agreement the litigation commenced in the Connecticut Superior Court. Pursuant to the Standstill Agreement, Patriot paid Carrazza $150,000 upon the execution of the Standstill Agreement, $250,000 upon execution of the Securities Purchase Agreement and $400,000 to be held in escrow pending the parties' negotiations. The Standstill Agreement was entered into as part of settlement discussions and in the event the Holdings transaction is consummated the monies paid over to Holdings as well as the money held in escrow will be considered pre-payments of transaction expenses by Patriot due Holdings. On December 16, 2009, Patriot and Holdings executed the Securities Purchase Agreement. As part of the execution of the Securities Purchase Agreement, the Holdings federal lawsuit was withdrawn with prejudice and the Holdings state court action is being held in abeyance.

The Bank is also subject to a formal agreement with the OCC entered into in February 2009 (the "OCC Agreement"). The OCC Agreement provides for, among other things, the enhancement of certain programs to reduce the Bank's credit risk, commercial real estate loan concentration and level of criticized assets, along with the augmentation of a profit plan and a capital plan. The Bank has been working aggressively to complete the action items identified in the OCC Agreement and has begun, and in some cases completed, implementation of certain of these programs and policies. Patriot believes the completion of the Holdings transaction would constitute substantial progress in addressing the most significant concerns raised by the OCC, although the OCC has offered no assurance that the Holdings issuance and sale will be sufficient to address those concerns or that the OCC Agreement will be terminated. The issuance and sale to Holdings is a critical component of Patriot's compliance plan and Patriot needs shareholder approval to complete it. If Patriot is unable to consummate the Holdings transaction, it will be substantially more likely to face negative regulatory consequences, as discussed in more detail below in "Consequences of Outcome of Shareholder Vote".

The Board considered the Holdings' offer and its other alternatives, including the results of its strategic plans discussed above and the likelihood of success related to additional efforts to raise capital or sell the Bank, the probability of success and timing in selling certain branches and loans, and the ability to work-out problem loans in its portfolio without raising additional capital and determined that the other options were not as viable as the Holdings transaction and that it is in the best interest of the shareholders and Patriot to proceed with the Holdings transaction.

Background of the Holdings Transaction

As discussed above, Patriot's Board of Directors considered various strategic and capital raising alternatives. Holdings, as one of the possible capital investors, performed extensive due diligence and began discussions with management beginning in March of 2009 regarding a proposed investment. Holdings offered to invest up to $50,000,000 in Patriot and to cause Patriot to issue Shareholder Loan Recovery Dividends to shareholders based on the value recovered from a pre-determined pool of charged-off loans to provide for 100% return to shareholders on the first $1,000,000 of loan recoveries and, thereafter, 50% return to shareholders up to $6,900,000 of loan recoveries.

The Proposed Transaction

The following discussion of the Holdings transaction is qualified by reference to the Securities Purchase Agreement, as amended by that certain First Amendment to Securities Purchase Agreement dated as of May 3, 2010. A copy of the Securities Purchase Agreement was filed as an Exhibit to Form 8-K on December 17, 2009 and a copy of the First Amendment to the Securities Purchase Agreement was filed as an Exhibit to Form 8-K on May 4, 2010. Shareholders may request a copy of the Securities Purchase Agreement and the First Amendment to Securities Purchase Agreement, without charge, by contacting Robert F. O'Connell, Senior Executive Vice President and Chief Financial Officer, Patriot National Bancorp, Inc., 900 Bedford Street, Stamford, Connecticut 06901, (877) 356-2223.

On December 16, 2009, the Company entered into the Securities Purchase Agreement with Holdings which contemplates the issuance and sale to Holdings of approximately 33,333,333 shares of Company common stock at a $1.50 per share, and a total purchase price of up to $50,000,000. Pursuant to the Securities Purchase Agreement, Holdings may, in its own discretion, elect to increase (subject to certain limitations) or decrease the aggregate dollar amount of its investment in Patriot by increasing or decreasing the corresponding number of shares of Company common stock that Holdings will purchase, provided that Patriot will be considered "Well Capitalized" under applicable regulatory standards immediately following the closing of the Holdings investment. On May 3, 2010, the parties entered into a First Amendment to Securities Purchase Agreement to amend certain provisions of the Securities Purchase Agreement, including the outside closing date, as discussed in more detail below. In connection with the Securities Purchase Agreement, other agreements including a registration rights agreement, will be executed in connection with the closing (collectively, the “Transaction Documents”). Substantially all of the net proceeds of the issuance and sale to Holdings will be downstreamed from Patriot to the Bank as additional capital.

The aggregate number of shares that Patriot is requesting approval to issue under the Transaction Documents is approximately 33,333,333 shares of Company common stock, subject to upward or downward adjustment. Assuming no other issuances of shares and Holdings does not exercise its right to increase or decrease the aggregate number of shares purchased, based on the currently outstanding shares of common stock, Holdings would own approximately 87.5% of the total outstanding shares of Company common stock.

Patriot's Board of Directors has unanimously approved the Holdings transaction and recommends that the Holdings transaction be presented to Patriot’s shareholders for approval in order to comply with the applicable shareholder approval requirements of the NASDAQ Marketplace Rules and the terms of the Securities Purchase Agreement.

Related Party Transactions

Pursuant to the Securities Purchase Agreement, Patriot has agreed to enter into a Management Agreement with PNBK Sponsor LLC, a Delaware limited liability company (the “Managing Member”) and sole managing member of Holdings pursuant to which the Managing Member will provide management and consulting services to Patriot. Patriot and Holdings are currently negotiating the terms of this agreement and such agreement is subject to regulatory approval. Additionally, pursuant to the Securities Purchase Agreement, Patriot has agreed to enter into a Registration Rights Agreement with Holdings. The Registration Rights Agreement will provide for both demand and "piggy-back" registration rights for the shares being purchased by Holdings for a period of ten years. Upon consummation of the closing, Patriot has also agreed to pay to Holdings all of its expenses incurred in connection with the Holdings transaction, including, without limitation, Holdings' due diligence, legal, tax, consultant, and accounting expenses currently estimated to be ($1,150,000) (less any payments received pursuant to the Standstill Agreement described above), and a closing fee, payable to the Managing Member, equal to 3% of the aggregate purchase proceeds paid to Patriot ($1,500,000 based on the $50,000,000 investment).

Reasons for Soliciting Shareholder Approval

Pursuant to the Securities Purchase Agreement, shareholder approval of the Holdings transaction is a condition to closing the Holdings transaction. In addition, upon the issuance of approximately 33,333,333 shares of Company common stock, assuming no other issuances of shares and Holdings does not exercise its right to increase or decrease the aggregate number of shares purchased, based on the currently outstanding shares of common stock, Holdings would own approximately 87.5% of the total outstanding shares of Company common stock. Under NASDAQ Marketplace Rule 5635, shareholder approval is required prior to the issuance of shares in certain circumstances. Under NASDAQ Marketplace Rule 5365(d)(2), shareholder approval is required prior to Patriot's issuance of shares to Holdings because the aggregate number of shares being issued would exceed 20% of Patriot's total outstanding shares of common stock for less than the greater of book value or market value. As discussed in more detail below, Patriot engaged Ostrowski & Company, Inc. ("O&Co") to render a fairness opinion with respect to the proposed issuance and sale to Holdings. A copy of that letter is attached as Exhibit A to this proxy statement. Based on information available as of March 31, 2010, the book value of the common stock was equal to $6.94 per share and the market value was equal to $1.66 per share. Consequently, the sale of Company common stock to Holdings at a purchase price of $1.50 per share is less than $6.94. Additionally, under Marketplace Rule 5365(b), shareholder approval is required prior to Patriot's issuance of shares to Holdings because the number of shares being issued to Holdings will result in a change of control of Patriot. Generally, a change of control is deemed to have occurred if after the issuance, the holder holds 20% or more of the outstanding shares of the issuer. In the event Patriot does not receive shareholder approval, it reserves the right to apply to NASDAQ under the "financial viability exception" to the NASDAQ shareholder approval requirements requesting approval of the issuance and sale described in this proxy statement by NASDAQ without shareholder approval.

Expected Proceeds

The table below indicates the gross proceeds that are anticipated to be available to Patriot upon consummation of the Holdings transaction based on the purchase price of $50,000,000. As of May 20, 2010, Holdings has supplied Patriot with subscription agreements pursuant to the Securities Purchase Agreement in excess of $45,000,000. Holdings has advised Patriot that it is finalizing its capital raise efforts. As mentioned above, Patriot has agreed to pay to Holdings all of its expenses incurred in the Holdings transaction, including due diligence, legal, tax, consultant, and accounting expenses (less any payments received pursuant to the Standstill Agreement described above), and a closing fee, payable to the Managing Member, equal to 3% of the aggregate purchase proceeds paid to Patriot. Set forth below is an estimate of such fees. In addition in connection with its capital raise efforts, Patriot engaged Sandler O'Neill & Partners, L.P. as a financial advisor. It is anticipated that up to approximately $2,500,000 of the gross proceeds may be required to pay Sandler, O'Neill & Partners, L.P.'s fee incurred in connection with the Holdings transaction.

| | |
|---|---|
| Gross Proceeds | $50,000,000 |
| Transaction Expenses1 | 1,500,000 |
| Financial Advisor Fee | up to 2,500,000 |
| Closing Fee | 1,500,000 |
| | |
| Net Proceeds | $44,500,000 |

---

1 Equals the estimated total transaction expenses of Holdings and Patriot. Pursuant to the Securities Purchase Agreement, Patriot agreed to pay to Holding its expenses incurred in connection with the transaction, currently estimated to be equal to $1,150,000 ($725,000 legal expenses; $400,000 due diligence expenses; $15,000 travel expenses; $10,000 miscellaneous); $400,000 of such expenses have been paid pursuant to the Standstill Agreement and $400,000 of funds are being held in escrow under the Standstill Agreement and will be applied to pay such expenses at closing.

Summary of the Holdings Transaction

Transaction Documents

Securities Purchase Agreement

On December 16, 2009, Patriot and Holdings entered into the Securities Purchase Agreement pursuant to which Patriot agreed to issue and sell to Holdings and Holdings agreed to purchase approximately 33,333,333 shares of Company common stock (as adjusted) at a purchase price of $1.50 per share for a total purchase price of up to $50,000,000, subject to certain conditions to closing, including, the approval of Patriot's shareholders of the issuance and sale to Holdings. On May 3, 2010, Patriot and Holdings entered into a First Amendment to Securities Purchase Agreement pursuant to which the parties agreed to, among other things, extend the outside closing date of the transaction from May 31, 2010 to July 31, 2010, as the same may be further extended as discussed in more detail below (all references in this proxy statement to the Securities Purchase Agreement shall include the First Amendment).

The consummation of the Holdings transaction is subject to the fulfillment of a number of conditions, including:

- Patriot obtaining the requisite shareholder approval of Proposals 1 and 2 at the Special Meeting;
- Holdings obtaining the requisite regulatory approvals to consummate the Holdings transaction; and
- Successful completion of Holdings' capital raise.

The Securities Purchase Agreement contains a number of affirmative and negative covenants of the parties, including:

- Subject to certain conditions and limitations, Patriot and the Bank agreed to an exclusivity provision. In general, the exclusivity provision prevents Patriot and the Bank and their Representatives (as defined in the Securities Purchase Agreement) from taking actions that would be reasonably likely to result in a third party making an "Acquisition Proposal". Acquisition Proposal is broadly defined in the Securities Purchase Agreement to include such things as an inquiry, proposal or offer to purchase or acquire 10% of more of the total revenues, net income, assets or deposits of Patriot or the Bank, a merger, consolidation, business combination, or a direct or indirect acquisition of 5% or more of the voting power of Patriot. Despite this exclusivity agreement, the Patriot Board of Directors may generally negotiate or have discussions with, or provide information to, a third party who makes an unsolicited, written bona fide acquisition proposal upon certain conditions set forth in the Securities Purchase Agreement such that such proposal is a "Superior Proposal" (as defined in the Securities Purchase Agreement). Patriot and the Bank must immediately deliver the Superior Proposal to Holdings, which in turn, has a thirty (30) day period following such receipt to purchase or otherwise acquire from Patriot and the Bank the securities that are the subject of the Superior Proposal on the same terms and conditions stated in the Superior Proposal.
- Holdings is required to deliver to Patriot copies of subscription agreements showing certain investment threshold levels as of certain dates. As of May 20, 2010, Holdings has provided subscription agreements pursuant to the Securities Purchase Agreement to Patriot in excess of $45,000,000.

The Securities Purchase Agreement may be terminated by mutual consent of Holdings and Patriot at any time prior to the consummation of the Holdings transaction. Additionally, subject to conditions and circumstances described in the Securities Purchase Agreement, either party may terminate the Securities Purchase Agreement if, among other things, any of the following occur:

- the Holdings transaction has not been consummated by July 31, 2010; provided, that the outside closing date may be further extended upon certain conditions to as late as August 31, 2010, unless further extended by written mutual consent (the "Outside Closing Date"). Holdings and Patriot have agreed that in the event the Closing is not consummated on or before such dates, as applicable, the Securities Purchase Agreement shall be automatically terminated and be of no further force or effect as of July 31, 2010 or August 31, 2010 or such Outside Closing Date, respectively, without further action by either party and regardless of whether any party is then in breach of the Securities Purchase Agreement, unless an extension is mutually consented to in writing by the parties. The failure to consummate the Closing as described above and the automatic termination of the Securities Purchase Agreement on the Extension Date or Outside Closing Date, as set forth above, will constitute a mutual consent as if in writing by Holdings and Patriot to the termination of the Securities Purchase Agreement and the abandonment of the transaction, pursuant to Section 7(a)(1) of the Securities Purchase Agreement (termination by mutual written consent of the parties), effective July 31, 2010 or August 31, 2010 or such Outside Closing Date, as applicable and as set forth above;

- Patriot shareholders do not approve the Holdings transaction at the Special Meeting;
- a required regulatory approval is denied or an application for a required regulatory approval has been permanently withdrawn at the request of a governmental authority; or
- there is a breach by the other party of any representation, warranty, covenant or agreement contained in the Securities Purchase Agreement, (other than a breach of Patriot's exclusivity obligations (as set forth in more detail above)), which cannot be cured, or has not been cured, within 30 days after the giving of written notice to such party of such breach.

Subject to conditions and circumstances set forth in the Securities Purchase Agreement, Holdings may terminate the Securities Purchase Agreement if, among other things, any of the following occur:

- if (A) either Patriot or the Bank shall have breached the exclusivity provisions of the Securities Purchase Agreement in any respect; (B) the Patriot Board of Directors shall have failed to recommend approval of the Holdings investment to its shareholders, withdrawn such recommendation or modified or changed such recommendation in a manner adverse in any respect to the interests of Holdings or (C) Patriot shall have breached its obligation under the Securities Purchase Agreement by failing to call, give notice of, convene and hold the Special Meeting;
- (A) any material adverse change in the business, financial condition, results of operations, or prospects of Patriot and the Bank since December 16, 2009, whether or not such material adverse change constitutes a "Material Adverse Effect" (as defined in the Securities Purchase Agreement) or (B) any material claims (whether or not asserted in litigation) have been asserted against Patriot and the Bank as determined in the sole discretion of Holdings; or
- if a tender offer or exchange offer for 25% or more of the outstanding shares of Patriot Common Stock is commenced (other than by Holdings), and the Patriot Board of Directors recommends that the shareholders of Patriot tender their shares in such tender or exchange offer or otherwise fails to recommend that such shareholders reject such tender offer or exchange offer within the ten-business day period specified in Rule 14e-2(a) under the Securities Exchange Act of 1934.

If the Securities Purchase Agreement is terminated for certain enumerated reasons, Patriot has agreed to pay a termination fee to Holdings of at least $1,000,000 but no more than $3,500,000, including:

- a termination fee of $1.0 million payable on the second business day following termination if Holdings terminates the Securities Purchase Agreement due to a material adverse change, Material Adverse Effect or material litigation (as described in more detail above);

- a termination fee of $1.5 million payable on the second business day following termination if Holdings terminates the Securities Purchase Agreement (a) as a result of a breach by Patriot of any representation, warranty, covenant or agreement (other than its exclusivity obligations described above) that cannot be, or has not been cured, within 30 days written notice to Patriot or (b) failure of Patriot shareholders to approve the Holdings transaction;

- a termination fee of up to $3.5 million dollars (such amount to be determined in accordance with the Securities Purchase Agreement) payable on the second business day following termination, if the Securities Purchase Agreement is terminated by Holdings because (a) Patriot is in breach of its exclusivity obligations under the Securities Purchase Agreement; (b) the Patriot Board failed to recommend approval of the Holdings transaction, withdrew, modified or changed such recommendation in a manner adverse to Holdings or (c) Patriot failed to call, give notice of, convene and hold the Special Meeting;

- a termination fee of up to $3.5 million (as calculated in accordance with the Securities Purchase Agreement) if (a) the Securities Purchase Agreement is terminated by Holdings as a result of a breach by Patriot of any representation, warranty, covenant or agreement (other than its exclusivity obligations described above) that cannot be, or has not been cured, within 30 days written notice to Patriot; (b) the Securities Purchase Agreement is terminated by either party if the Holdings transaction has not been consummated by the Outside Closing Date and at such time Patriot has not held the Special Meeting; or (c) the Securities Purchase Agreement is terminated by either party if Patriot shareholders do not approve the Holdings transaction; and an Acquisition Proposal from a third party has been publicly announced or otherwise communicated to senior management or the Patriot Board before the termination date in clause (a) or (b) above or before the date of the shareholder vote at the Special Meeting in clause (c) above, then (1) if within 12 months after such termination Patriot enters into an agreement with respect to a “Control Transaction” (as defined in the Securities Purchase Agreement), then Patriot must pay 75% of such termination fee on the date of execution of such agreement and upon consummation of such Control Transaction, the remaining 25% of such termination fee and (2) if a Control Transaction is consummated otherwise than pursuant to an agreement with Patriot within 15 months after such termination, then Patriot is required to pay such termination fee on the date of such consummation of such Control Transaction.

Under no circumstances will Patriot be required to pay more than $3.5 million under the above termination fee provisions of the Securities Purchase Agreement plus the amounts held in escrow under the Standstill Agreement.

Registration Rights Agreement

The Registration Rights Agreement between Holdings and Patriot will provide for both demand and “piggy-back” registration rights for the shares being purchased by Holdings for a period of ten years.

Management Agreement

Pursuant to the Securities Purchase Agreement, Patriot and the Managing Member will enter into a management and consulting agreement pursuant to which the Managing Member will provide management and consulting services to Patriot.  Patriot and Holdings are currently negotiating this agreement and such agreement is subject to regulatory approval.

Holdings

Pursuant to the Securities Purchase Agreement, Holdings has represented that it is an “accredited investor” as that term is defined in Rule 501 of Regulation D of the Securities Act of 1933, as amended (the “Securities Act”).  The shares proposed to be issued to Holdings will be issued pursuant to an exemption from registration under the Securities Act.   Holdings will be managed and controlled by PNBK Sponsor, LLC, a Delaware limited liability company (“Sponsor”), the Managing Member of which is Michael Carrazza.  Mr. Carrazza, 44, is founder and Chief Executive Officer of Solaia Capital Advisors LLC, an operationally oriented private investment company specializing in middle market transactions.  Mr. Carrazza has more than 15 years of operating and investing experience across broad industry sectors.  In 2004, he co-founded Bard Capital Group, LLC through which he originated and sponsored the buyouts of AmQuip Corporation in 2007, the third largest crane rental business in the US, and Blastrac, Global, Inc. and Holland Industriëlle Diamantwerken in 2005, both leading manufacturers of portable surface preparation equipment.  Mr. Carrazza maintains active oversight of AmQuip and serves as a director.  From 2001 until 2003, he was a principal at The GlenRock Group, a middle market private equity firm.  While at GlenRock, he structured and financed the buyout of International Surface Preparation Group, Inc. (“ISPC”), a former U.S. Filter subsidiary known as The Wheelabrator Group, a leading global industrial manufacturing and distribution company.  Upon the acquisition of ISPC by an affiliate of Bard Capital in 2003, he became Vice President of ISPC, where he assisted in the company's financings, restructuring and subsequent sale in 2006.  Between 1997 and 2001, Mr. Carrazza worked as an executive to Mitchell Madison Group restructuring the firm’s balance sheet and assisting in the company’s sale. Prior, he spent several years at Goldman, Sachs & Co., providing systems design, automation and process strategies across the firm’s Investment Banking, Treasury, Operations and Finance Divisions.  Mr. Carrazza earned his MBA in Finance from The Stern School of Business at New York University and his B.S. in Electrical Engineering from The Pennsylvania State University.

Upon consummation of the Holdings transaction, Holdings will have control in determining the outcome of any corporate transaction or other matter submitted to Patriot's shareholders for approval, including the election of directors and approval of mergers, consolidations and the sale of all or substantially all of Patriot’s assets.

Both Holdings and Sponsor have applied to become bank holding companies. Investors in Holdings will be restricted to levels whereby no investor, either individually or acting in concert with others, will invest in an amount that would cause such investors to be deemed in control of Patriot or the Bank.

Additionally, pursuant to the Securities Purchase Agreement, as of the closing of the Holdings transaction and if requested by Holdings, it is anticipated that all members of the Board of Directors of Patriot will resign from the Patriot Board. Further, pursuant to the Securities Purchase Agreement, as of the closing of the Holdings transaction and if requested by Holdings, Patriot's management team will resign but that the Bank's senior management team will remain, with the exception of Charles F. Howell. It is anticipated that Mr. Howell will retire as President and Vice Chairman of Patriot and as President and Chief Executive Officer of the Bank upon the closing of the transaction. Holdings has requested that Mr. Howell remain with the Bank as a consultant and senior advisor upon the closing of the Holdings transaction and Mr. Howell's retirement as an officer and director of Patriot and the Bank. Holdings and Mr. Howell have agreed to negotiate a consulting contract in good faith.

Shareholder Loan Recovery Dividends

Pursuant to the Securities Purchase Agreement, subject to the receipt of any applicable approvals, consents, waivers and/or non-objections from the governmental authorities deemed necessary by the Patriot Board of Directors, Patriot may issue Shareholder Loan Recovery Dividends or the SLRD. The SLRD may be issued to shareholders of Patriot (excluding Holdings) as of certain record dates established by Patriot's Board of Directors in connection with the declaration and payment of each Special Dividend (the "Eligible Shareholders"). There is no guarantee that Patriot will receive all necessary approvals in order to implement the SLRD program. The SLRD is a vehicle to provide Eligible Shareholders with the value of recoveries received by Patriot after June 30, 2009 with respect to the charge-off of active loans that were on the Bank's books as of June 30, 2009. The value of these recoveries will be distributed to Eligible Shareholders, excluding Holdings, as follows:

1. 100% of the first $1,000,000 of loan recoveries; and
2. thereafter, 50% of the loan recoveries, up to an aggregate maximum of $6,900,000 of loan recoveries.

The SLRD, if any, will be payable in shares of Company common stock valued at the greater of (a) 75% of Patriot's book value calculated on the last day of the quarter in which the recovery was realized, or (b) $1.50 per share. Distributions, if any, will be made at the end of each fiscal quarter, beginning with the first fiscal quarter end following the closing date. The SLRD, if any, will be payable with regard to recoveries that are realized through June 30, 2011.

Shareholder Dilution

Voting Dilution.

If Proposal 2 is approved and the issuance and sale to Holdings is consummated, existing shareholders of Patriot will experience significant voting dilution of their investment. Assuming Holdings purchases 33,333,333 shares of Company common stock (and Holdings does not exercise its right to increase the number of shares purchased) and no other shares are issued, based on the amount of currently outstanding shares, Holdings would own approximately 87.5% of Patriot's total outstanding shares. As a result, existing shareholders will own a much smaller percentage of Patriot's outstanding common stock than they do now. Holdings will have control in determining the outcome of any corporate transaction or other matter submitted to Patriot's shareholders for approval, including the election of directors and approval of mergers, consolidations and the sale of all or substantially all of Patriot's assets.

Financial Dilution.

As of March 31, 2010, Patriot's net tangible book value totaled approximately $33.0 million, or $6.93 per share. Net tangible book value per share represents the amount of Patriot's total tangible assets less total liabilities divided by the number of shares outstanding. After giving effect to the sale of 33,333,333 shares of Company common stock at the per share price of $1.50 per share the net tangible book value would be approximately $83.0 million, or $2.18 per share. This represents dilution of $4.75 per share to existing shareholders. In the event Holdings exercises its right to increase its investment, the dilution to existing shareholders will be increased. "Dilution" means the difference between the net tangible book value (i) before this proposed issuance and sale to Holdings and (ii) after giving effect to this proposed issuance and sale to Holdings.

The following table illustrates this per share dilution:

| | |
|---|---|
| Net tangible book value per share at March 31, 2010 | 6.93 |
| Less pro forma, net tangible book value per share after the issuance to Holdings | 2.18 |
| Dilution per share to Existing Shareholders | 4.75 |

The ownership dilution experienced by shareholders may be mitigated by the SLRD, described above in this Proposal 2 under "SLRD", pursuant to which existing shareholders who are shareholders as of the record dates under the SLRD program may receive additional shares of Company common stock.

Consequences of Outcome of Shareholder Vote

If the issuance and sale to Holdings is approved and all other conditions to closing are satisfied or waived (e.g., consent of all applicable regulatory authorities), Patriot expects to close on the issuance and sale to Holdings on or around July 30, 2010 or as soon thereafter as practicable.

If the Holdings transaction is not approved, Patriot will not be able to complete the closing with Holdings. Patriot believes that Holdings would elect not to proceed with a purchase of Company common stock in an amount that would not require shareholder approval under the NASDAQ Marketplace Rules. Moreover, if Patriot is unable to raise the level of capital contemplated by the Holdings' investment in the near term without the Holdings investment, the Bank may fail to meet certain capital levels required under applicable regulations. Patriot cannot predict with any certainty the consequences of such failure but such failure, and the Bank’s ability to raise capital from an alternative source, could potentially lead to the Bank being subject to additional enforcement actions, including, on a worst case basis, termination of the Bank’s federal deposit insurance and/or a closure of the Bank. The terms of any such public supervisory or regulatory action could have a material negative effect on Patriot’s business and financial condition and the value of Company common stock.

Fairness Opinion and Analysis of Ostrowski & Company, Inc.

Ostrowski & Company, Inc. (O&Co) was retained by Patriot as its financial advisor on August 4, 2009 in connection with a proposed secondary offering of shares of common stock. Pursuant to the terms of its engagement, O&Co agreed to provide advice and assistance to Patriot in connection with the proposed offering. As part of the services provided, Patriot's Board of Directors requested O&Co's opinion as to the fairness, from a financial point of view, of the offering. O&Co was not requested to, and did not initiate any discussions with, or solicit indications of interest from third parties with respect to the offering or any alternatives to the offering.

Patriot selected O&Co as its financial advisor based upon O&Co's in-depth knowledge of the banking and financial service industry and the qualifications, experience and reputation of its personnel in the financial services and investment communities, as well as its experience in the valuation of bank and thrift institutions and their securities in connection with equity offerings and other corporate transactions.

The full text of O&Co's fairness opinion dated December 16, 2009 is attached as Exhibit A to this proxy statement and is incorporated into this document by reference. The description of the fairness opinion in this section is qualified in its entirety by reference to Exhibit A. Holders of Company common stock are urged to read the opinion in its entirety. The opinion describes the procedures followed, assumptions made, matters considered and qualifications of the review undertaken by O&Co in connection with the opinion. O&Co's opinion is directed solely to the fairness, from a financial point of view, of the offering and does not constitute any recommendation to Patriot's Board of Directors or the holders of Company common stock with respect to any vote at the Special Meeting.

In order to determine the fairness of the offering from a financial point of view, O&Co, in connection with rendering its opinion, reviewed and relied upon, among other things: (i) the Securities Purchase Agreement; (ii) certain publicly available financial statements and other historical financial information of the Company and the Bank that were deemed relevant; (iii) internal financial projections for the Company and the Bank for the years ending December 31, 2009 through 2010 prepared by and reviewed with management; (iv) the pro forma financial impact of the offering on the outstanding shares common stock of the Company; (v) the publicly reported historical price and trading activity for the Company's common stock, including a comparison of certain financial and stock market information for the Company with similar publicly available information for certain other companies the securities of which are publicly traded; (vi) the financial terms of certain capital offerings in the banking industry, to the extent publicly available; (vii) reports and analyses prepared by advisors retained by the Company to seek a merger, acquisition or additional capital; (viii) agreements entered into by the Company and the Bank with regulatory authorities pertaining to, among other things, capital, asset quality, management, earnings, liquidity and market sensitivity, including the Agreement By and Between the Bank and The Comptroller of the Currency dated February 9, 2009; (ix) the current economic environment generally and the banking and bank regulatory environment in particular; and (x) such other information, financial studies, analyses and investigations and financial, economic, regulatory and market criteria considered relevant. O&Co also discussed with certain members of senior management of the Company and the Bank the business, financial condition, results of operations, regulatory standing and prospects of the Company and the Bank both without the offering and upon completion of the offering.

In performing its review, O&Co relied upon the accuracy and completeness of all of the financial and other information that was available from public sources, that was provided by the Company and the Bank or that was otherwise reviewed by O&Co, and assumed such accuracy and completeness for purposes of rendering its opinion. O&Co further relied on the assurances of management of the Company and the Bank that they were not aware of any facts or circumstances that would make any of such information inaccurate or misleading. O&Co was not asked to and has not undertaken an independent verification of any of such information and O&Co does not assume any responsibility or liability for the accuracy or completeness thereof. O&Co did not make an independent evaluation or appraisal of the specific assets, or the liabilities (contingent or otherwise) of the Company or the Bank. With respect to the pro forma financial impact of the offering on the Company and the Bank reviewed with management and considered by O&Co in its analyses, O&Co assumed it reflected the best currently available estimates and judgments of management. O&Co has expressed no opinion as to such financial impact or the assumptions on which they are based. O&Co has also assumed that there has been no material change in the Company's or the Bank's assets, financial condition, results of operation, business or prospects since the date of the most recent financial statements made available. O&Co has assumed that all of the representations and warranties contained in the Securities Purchase Agreement and all related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements, and that the conditions precedent in the Securities Purchase Agreement are not waived.

The financial projections furnished to O&Co and used by it in certain of its analyses were prepared by the senior management of the Company and the Bank. The Company and the Bank do not publicly disclose internal management statements of the type provided to O&Co in connection with its review of the offering. As a result, such statements were not prepared with a view towards public disclosure. The statements were based on numerous variables and assumptions which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the statements.

In performing its analyses, O&Co made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions, regulatory actions and other matters, many of which are beyond the control of the Company, the Bank and O&Co. Any estimates contained in the analyses performed by O&Co are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, O&Co's opinion was among several factors taken into consideration by the Company's board in making its determination to enter into the Securities Purchase Agreement. Consequently, the analyses described below should not be viewed as determinative of the decision of the Company's board or management with respect to the fairness of the consideration.

The following is a summary of the material analyses presented by O&Co to the Company's board in connection with its oral and written opinion. The summary is not a complete description of the analyses underlying the O&Co opinion or the presentation made by O&Co to the Company's board, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion O&Co did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, O&Co believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The summaries presented below do not constitute a complete description of the financial analyses.

Summary of Proposal

The Company has entered into a Securities Purchase Agreement pursuant to which Holdings will purchase up to $50.0 million of Patriot common stock, $2.00 par value (which shall be reduced to $0.01 per share pursuant to the terms of the Agreement) per share ("Patriot Common Stock") at a purchase price of $1.50 per share for up to 33,333,333 shares of Patriot Common Stock.

As more fully described in the Securities Purchase Agreement, the amount may be increased within certain limitations, or decreased, in the reasonable discretion of Holdings, provided that the Bank will be, at a minimum, "Well Capitalized" (i.e., 5% Tier 1 Leverage

Capital; 6% Tier 1 Risk Based Capital; and 10% Total Risk Based Capital) under applicable regulatory capital standards immediately following the Closing. Following the Closing, Patriot may pay one or more special stock dividend(s) of Patriot Common Stock to holders of Patriot Common Stock (excluding Holdings) as of the record date established by the Patriot Board of Directors in connection with the declaration and payment of each Special Dividend ("Eligible Shareholders"). The aggregate value of all Special Dividends which may be declared and paid shall be calculated based upon the dollar amount of actual Recoveries received by the Bank during the period beginning after June 30, 2009 and ending on June 30, 2011 from the charged off portion of loans on the Bank's books, on or prior to June 30, 2009 ("Aggregate Dividend Amount") as specified in the Agreement. The initial $1.0 million of the Aggregate Dividend Amount recovered during the Special Dividend Period shall be eligible to be paid to the Eligible Shareholders in the form of one or more Special Dividends and, thereafter, 50% of the remaining Aggregate Dividend Amount recovered during the Special Dividend Period shall be eligible to be paid to the Eligible Shareholders in the form of one or more Special Dividends. Each Special Dividend will be paid on a pro rata basis to the Eligible Shareholders based upon their respective holdings of Patriot Common Stock as of the record date for such Special Dividend. The number of shares of Patriot Common Stock issuable pursuant to each Special Dividend shall be calculated by dividing (A) the Distributable Amount that has not already been paid as a Special Dividend by (B) the greater of (x) 75% of Patriot's book value per share calculated on the last day of the calendar quarter in which the recovery was realized, or (y) $1.50, rounded to the nearest whole share.

Trading Market Comparison

O&Co compared the one year stock price performance of the Company's common stock with the performance of the NASDAQ Banking Index and the SNL index for banks with total assets between $500 million and $1 billion for the twelve months ended December 15, 2009. Over the period the Company's price declined 79.5 percent compared to a 14.4 percent decline in the NASDAQ Banking Index and 9.6 percent decline in the SNL index.

Selected Peer Group Analyses.

O&Co compared the financial performance of the Company over the five quarters ended September 30, 2009 with that of a peer group of exchange listed banks with assets between $500 million and $1 billion ("Operating Peer"). The Company reported a return on average assets of (5.77)%, return on average equity of (105.40)%, net interest margin of 1.76% and an efficiency ratio of 163.18% for the most recent quarter ended September 30, 2009 and a NPA (nonperforming assets) ratio of 15.54% and an equity to total assets ratio of 4.23% at September 30, 2009. Based upon reported earnings for the most recent quarter ended September 30, 2009, the respective Operating Peer averages were: return on average assets of (0.74)%; return on average equity of (8.20)%; net interest margin of 3.64%; an efficiency ratio of 71.70%; and a NPA ratio of 3.91% and an equity to total asset ratio of 9.05% at September 30, 2009.

| | Operating Peer At or For Three Months Ended | | | | | PNBK At or For Three Months Ended | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Period Ended | 9/30/2008 | 12/31/2008 | 3/31/2009 | 6/30/2009 | 9/30/2009 | 9/30/2008 | 12/31/2008 | 3/31/2009 | 6/30/2009 | 9/30/2009 |
| Number of Companies | 100 | 93 | 89 | 88 | 85 | | | | | |
| ROAA (%) | (0.37) | (0.87) | 0.28 | (1.16) | (0.74) | (0.85) | (1.85) | (0.47) | (1.90) | (5.77) |
| ROAE (%) | (4.24) | (10.10) | 3.06 | (12.98) | (8.20) | (11.44) | (43.29) | (7.44) | (32.53) | (105.40) |
| Net Interest Margin (%) | 3.71 | 3.55 | 3.48 | 3.57 | 3.64 | 3.30 | 2.18 | 2.45 | 1.91 | 1.76 |
| Efficiency Ratio (%) | 67.74 | 69.87 | 71.14 | 71.21 | 71.70 | 76.39 | 96.94 | 103.09 | 146.88 | 163.18 |
| NPLs/ Loans (%) | 1.93 | 2.62 | 3.07 | 3.99 | 4.37 | 3.57 | 9.96 | 10.70 | 16.43 | 19.16 |
| NPAs/ Assets (%) | 1.87 | 2.49 | 2.80 | 3.58 | 3.91 | 3.16 | 8.78 | 8.84 | 12.77 | 15.54 |
| NPAs & 90+ PD/ Assets (%) | 1.97 | 2.57 | 2.90 | 3.68 | 4.03 | 3.43 | 8.81 | 9.00 | 13.41 | 16.03 |
| Reserves/ NPAs (%) | 57.60 | 47.96 | 42.41 | 37.90 | 36.91 | 33.26 | 20.27 | 19.39 | 13.22 | 12.12 |
| Reserves/ NPAs&90& Days Delinq (%) | 54.36 | 46.34 | 40.18 | 36.42 | 35.55 | 30.62 | 20.18 | 19.04 | 12.59 | 11.75 |
| Loan Loss Reserves/ Gross Loans (%) | 1.44 | 1.61 | 1.64 | 1.88 | 2.04 | 1.19 | 2.02 | 2.07 | 2.27 | 2.45 |
| Total Equity/ Total Assets (%) | 8.45 | 8.80 | 8.99 | 8.63 | 9.05 | 7.18 | 6.43 | 5.94 | 5.45 | 4.23 |
| Tangible Equity/ Tangible Assets (%) | 7.49 | 7.89 | 8.17 | 7.96 | 8.47 | 7.03 | 6.43 | 5.93 | 5.45 | 4.22 |

Comparable Transaction Analysis

O&Co compared certain financial ratios pertaining to capital and asset quality for the Bank at September 30, 2009 with the ratios of banks that failed in 2009 as reported for the quarter ended immediately preceding failure. The Bank reported brokered deposits equal to 6.66% of total deposits which was below the median ratio for failed banks of 9.35%. The Bank's ratios of Nonperforming Assets + Loans Past Due 90 days or more as a percent of Tangible Equity + Loan Loss Reserves and as a percent of Total Assets were 262.51% and16.03% respectively. The median ratios for the failed banks for Nonperforming Assets + Loans Past Due 90 days or more as a percent of Tangible Equity + Loan Loss Reserves and as a percent of Total Assets were 321.37% and 14.42%, respectively. The Bank's ratios of Tangible Equity as a percent of Tangible Assets and Tier 1 Leverage Ratio of 4.22% and 7.46% respectively, were above the respective median ratios for failed banks of 1.55% and 2.02%.

Selected Data – 2009 Failed Banks*

The following table sets forth various metrics of banks that failed during 2009:

| ($ 000) | Total Deposits $ | Total Assets $ | Brokered Deposits/ Total Deposits | NPAs+90 Past Due/ Tangible Equity + Loan Loss Reserve | NPAs+ 90 Past Due/ Total Assets | Tangible Equity/ Tangible Assets | Tier 1 Ratio |
|---|---|---|---|---|---|---|---|
| Maximum | 20,072,099 | $25,455,112 | 99.85% | 28,090.67% | 48.89% | 23.89% | 63.46% |
| Minimum | 12,730 | 12,947 | 0.00% | 9.07% | 0.83% | -13.51% | -19.77% |
| Median | 225,194 | 238,624 | 9.35% | 321.37% | 14.42% | 1.55% | 2.02% |
| Average | 952,373 | 1,166,998 | 16.53% | 781.20% | 16.50% | 1.36% | 1.65% |

Comparable metrics for Patriot National Bancorp, Inc. are as follows:

| ($ 000) | Total Deposits $ | Total Assets $ | Brokered Deposits/ Total Deposits | NPAs+90 Past Due/ Tangible Equity + Loan Loss Reserve | NPAs+ 90 Past Due/ Total Assets | Tangible Equity/ Tangible Assets | Tier 1 Ratio |
|---|---|---|---|---|---|---|---|
| PNBK | 829,053 | 937,438 | 6.66% | 262.51% | 16.03% | 4.22% | 7.46% |

*failed banks through November 30, 2009; PNBK data as of September 30, 2009

Other Considerations

O&Co considered the extensive efforts of the Company and its advisors in seeking alternative methods of raising additional capital including seeking a merger or acquisition of the Company. O&Co also considered the written agreement with regulatory authorities pertaining to, among other things, capital, credit concentrations, asset quality, management, earnings, liquidity and market sensitivity and the possible regulatory enforcement alternatives should the Bank fail to meet those commitments. O&Co also considered the complaints filed by Holdings in the United States District Court of New York and with the State of Connecticut Superior Court – Stamford Judicial District and their impact on the availability of alternatives to satisfying regulatory capital requirements.

Compensation of Financial Advisor

The Company agreed to pay O&Co retainer fee of $25,000 for advice and assistance in connection with the Securities Purchase Agreement, and an Opinion Fee of $150,000 in connection with rendering a written opinion as to the fairness of the Securities Purchase Agreement, from a financial point of view, to the Company's shareholders. The total fees payable to O&Co of $175,000 were not contingent upon any events or results and have been paid. Pursuant to the O&Co engagement letter, the Company also agreed to reimburse O&Co for its reasonable out-of-pocket expenses, including legal fees, incurred in connection with O&Co's engagement and to indemnify O&Co and its directors, officers, employees, agents and controlling persons against certain expenses and liabilities.

Patriot Board of Directors' Recommendation

In developing its recommendation to the shareholders to vote in favor of the issuance and sale to Holdings of Company common stock, Patriot's Board of Directors considered many factors, including the following:

- The need to raise capital in the short term to satisfy the OCC and to allow for the Bank to operate with a level of capital that allows for reasonable growth.
- The difficulties that Patriot and many other banks generally have experienced in accessing the capital markets.
- The extensive due diligence conducted by Holdings and its early contacts with the OCC and the FRB.
- The results of prior extensive efforts by the Company and its advisors to identify either capital investors or merger partners on terms preferable to those offered by Holdings.
- The terms of the Securities Purchase Agreement and other documents and agreements executed or to be executed in connection with the proposed transaction and the consideration that would be payable to Patriot.
- The potential benefits of the Shareholder Loan Recovery Dividends to shareholders of Patriot.
- The consequences of failure to infuse sufficient additional capital into Patriot in a timely manner.

After considering all of the above factors, Patriot's Board of Directors concluded that the issuance and sale to Holdings of the shares of Company common stock pursuant to the transaction described in this proxy statement is not only in the best interests of Patriot and its shareholders but also critical to the future of Patriot. Accordingly, Patriot's Board of Directors recommends the approval of the proposal.

Vote Required

The majority of votes cast must be cast "For" this proposal to approve the issuance and sale to Holdings of Company common stock.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" PROPOSAL 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

1. For Fiscal Year Ended December 31, 2009

Critical Accounting Policies

Patriot's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included as Appendix B to this Proxy Statement. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates. Management has identified accounting for the allowance for loan losses, the analysis of other-than-temporary-impairment for, and the valuation of, its investment securities, and the valuation of deferred tax assets, as Patriot's most critical accounting policies and estimates in that they are important to the portrayal of Patriot's financial condition and results. They require management's most subjective and complex judgment as a result of the need to make estimates about the effect of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Management's Discussion and Analysis.

Recent Economic Developments

There have been significant and historical disruptions in the financial system during the past two years and many lenders and financial institutions have reduced or ceased to provide funding to borrowers, including other lending institutions. The availability of credit, confidence in the entire financial sector, and volatility in financial markets has been adversely affected. The Federal Reserve Bank has been providing vast amounts of liquidity into the banking system to compensate for weaknesses in short-term borrowing markets and other capital markets.

In response to the financial crises affecting the overall banking system and financial markets, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA), was enacted. Under the EESA, the United States Treasury Department (the Treasury) has the authority to, among other things, purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

The Federal Deposit Insurance Corporation (FDIC) insures deposits at FDIC-insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Based on the Bank's current capital classification, a higher level of FDIC insurance premiums is assessed. In addition, the Bank paid a special assessment of $453,500 in the second quarter of 2009. Special assessments were levied on all financial institutions.

The EESA included a provision for an increase in the amount of deposits insured by the FDIC to $250,000 until December 2013. On November 21, 2008, the FDIC adopted the Final Rule implementing the Temporary Liquidity Guarantee Program ("TLGP") inaugurated October 14, 2008. The TLGP consists of two basic components: (1) the Debt Guarantee Program which guarantees newly issued senior unsecured debt of banks, thrifts, and certain holding companies and (2) the Transaction Account Guarantee Program which guarantees certain non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount. The purpose of the TLGP was to provide an initiative to counter the system wide crisis in the nation's financial sector by promoting financial stability by preserving confidence in the banking system and encourages liquidity in order to ease lending to creditworthy business and consumers. The Bank is participating in the Transaction Account Guarantee portion of the TLGP and as a result, its non-interest bearing transaction deposit accounts and interest bearing transaction accounts paying 50 basis points or less will be fully insured through June 30, 2010. Patriot did not participate in the Debt Guarantee portion of the TLGP.

Summary

In a year of ongoing economic slowdown, financial disruption and market volatility, Patriot reported a net loss of $23.9 million ($5.02 basic and diluted loss per share) for 2009 compared to a net loss of $7.1 million ($1.50 basic and diluted loss per share) for 2008. This is the result of an increase of $11.4 million in the deferred tax asset valuation allowance and loan loss provision of $13.0 million. Total assets ended the year at $866.4 million, which represents a decrease of $47.0 million from a record high of $913.4 million at December 31, 2008. Management planned to reduce assets in 2009 to reduce exposures in certain loan concentrations and to maintain regulatory capital.

Net interest income for the year ended December 31, 2009 decreased $8.6 million, or 32%, to $18.6 million as compared to $27.2 million for the year ended December 31, 2008. This is primarily reflective of the increased level of non-accrual loans and reduced interest margin.

Total assets decreased by 5% during the year as total loans decreased $143.4 million from $788.6 million at December 31, 2008 to $645.2 million at December 31, 2009. The available-for-sale securities portfolio decreased by $3.2 million, or 6%, to $48.8 million at December 31, 2009 as compared to $52.0 million at December 31, 2008. Total deposits decreased $23.5 million to $761.3 million at December 31, 2009. This is a result of management intentionally letting higher rate certificates of deposit mature. FHLB advances are unchanged from December 31, 2008. Shareholders' equity decreased $22.9 million from $58.8 million at December 31, 2008 as compared to $35.9 million at December 31, 2009. This is primarily the result of the 2009 net loss described above. It is also reflective of an increase of $11.4 million in the deferred tax asset valuation allowance recorded in the third quarter.

## FINANCIAL CONDITION

### Assets

Patriot's total assets decreased $47.0 million, or 5%, from $913.4 million at December 31, 2008 to $866.4 million at December 31, 2009. The reduction in total assets was primarily due to the $143.4 million decline in the loan portfolio, as Patriot reduced the concentration in construction and commercial real estate loans. Cash and due from banks increased $93.2 million and federal funds sold decreased $10.0 million, resulting in a net increase in cash and cash equivalents of $83.2 million when compared to December 31, 2008. This increase is the result of management's strategy to strengthen the Company's liquidity position.

### Investments

The following table is a summary of Patriot's investment portfolio at fair value at December 31 for the years shown:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| U.S. Government Agency obligations | $5,108,500 | $10,102,248 | $16,924,648 |
| U.S. Government Agency mortgage-backed securities | 40,503,458 | 37,998,569 | 41,325,870 |
| Money market preferred equity securities | 3,218,023 | 3,878,860 | 9,039,522 |
| Federal Reserve Bank stock | 1,839,650 | 1,913,200 | 1,911,700 |
| Federal Home Loan Bank stock | 4,508,300 | 4,508,300 | 2,656,100 |
| Total Investments | $55,177,931 | $58,401,177 | $71,857,840 |

Total investments decreased $3.1 million, or 6%, primarily as a result of the $12.0 million in proceeds from calls of government agency bonds and redemptions of auction rate preferred equity securities, $19.9 million from proceeds from sales of mortgage-back securities and $7.3 million in principal payments on mortgage-backed securities, which were offset by $34.2 million in purchases of government agency bonds and mortgage-backed securities.

Patriot performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations, the impairment due to a deterioration in credit, management's plans and ability to maintain its investment in the security, the length of time and the amount by which the security has been in a loss position, the interest rate environment, the general economic environment and prospects or projections for improvement or deterioration.

Management has made the determination that none of the Bank's investment securities are other-than-temporarily impaired at December 31, 2009, and no impairment charges were recorded during the year ended December 31, 2009.

The following table presents the maturity distribution of available-for-sale investment securities at December 31, 2009 and the weighted average yield of the amortized cost of such securities. The weighted average yields were calculated on the amortized cost and effective yields to maturity of each security. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties. As mortgage-backed securities are not due at a single maturity date, they are included in the "No maturity" category in the following maturity summary.

| | One year or less | Over one through five years | Over five through ten years | Over ten years | No maturity | Total | Weighted Average Yield |
|---|---|---|---|---|---|---|---|
| U.S. Government Agency obligations | $ - | $ - | $ - | $5,176,712 | $ - | $5,176,712 | 6.07% |
| U.S. Government Agency mortgage-backed securities | - | - | - | - | 40,428,810 | 40,428,810 | 3.88% |
| Money market preferred equity securities | - | - | - | - | 1,899,720 | 1,899,720 | 4.68% |
| Total | $ - | $ - | $ - | $5,176,712 | $42,328,530 | $ 47,505,242 | 4.15% |
| Weighted average yield | - | - | - | 6.07% | 3.92% | 4.15% | |

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2009:

| | Amortized Cost | Fair Value |
|---|---|---|
| Available for sale securities: | | |
| U. S. Government Agency obligations | $ 5,176,712 | $ 5,108,500 |
| U. S. Government Agency mortgage-backed securities | 40,428,810 | 40,503,458 |

34

Loans

The following table is a summary of Patriot's loan portfolio at December 31 for each of the years shown:

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Real Estate | | | | | |
| Commercial | $ 230,225,306 | $ 262,570,339 | $ 233,121,685 | $ 166,799,341 | $ 129,178,889 |
| Residential | 195,571,225 | 170,449,780 | 110,154,838 | 91,077,687 | 77,391,833 |
| Construction | 154,457,082 | 257,117,081 | 254,296,326 | 173,840,322 | 107,232,587 |
| Construction to permanent | 15,989,976 | 35,625,992 | 37,701,509 | 29,988,131 | - |
| Commercial | 19,298,505 | 33,860,527 | 27,494,531 | 23,997,640 | 15,591,818 |
| Consumer installment | 1,155,059 | 993,707 | 1,270,360 | 1,251,300 | 1,106,648 |
| Consumer home equity | 44,309,265 | 45,022,128 | 29,154,498 | 26,933,277 | 39,097,450 |
| Total loans | 661,006,418 | 805,639,554 | 693,193,747 | 513,887,698 | 369,599,225 |
| Premiums on purchased loans | 131,993 | 158,072 | 195,805 | 292,543 | 367,491 |
| Net deferred fees | (138,350) | (981,869) | (1,830,942) | (1,665,654) | (1,134,604) |
| Allowance for loan losses | (15,794,118) | (16,247,070) | (5,672,620) | (5,630,432) | (4,588,335) |
| Loans, net | $ 645,205,943 | $ 788,568,687 | $ 685,885,990 | $ 506,884,155 | $ 364,243,777 |

Note: As financing for construction to permanent projects became a more significant line of business for Patriot, the presentation of loan information throughout this document reflects the breakout of construction to permanent loans from construction loans. Loan information prior to 2006 has not been reclassified as construction to permanent financing was not as significant in earlier periods.

Patriot's net loan portfolio decreased $143.4 million, or 18%, to $645.2 million at December 31, 2009 from $788.6 million at December 31, 2008. The decline in the loan portfolio was primarily as a result of a moratorium on new construction and commercial real estate loans. Significant decreases in the portfolio include a $102.7 million decrease in construction loans, a $32.3 million decrease in commercial real estate loans, a $19.6 million decrease in construction to permanent loans and a $14.6 million decrease in commercial loans. These decreases were partially offset by an increase of $25.1 million in residential real estate loans. The decline in the loan portfolio in 2009 reflects the implementation of management's strategic decision to reduce its concentration in speculative construction and commercial real estate lending. During 2009, $98.4 million of construction loans paid off. A component of this diversification included planned increases in owner-occupied residential real estate loans. The decline in the portfolio is also reflective of the weakened demand for real estate based financing in Fairfield and New Haven Counties in Connecticut and the metropolitan New York area where the Bank primarily conducts its lending business.

At December 31, 2009, the net loan to deposit ratio was 85% and the net loan to asset ratio was 74%. At December 31, 2008, the net loan to deposit ratio was 100%, and the net loan to asset ratio was 86%.

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturities of loans in Patriot's portfolio at December 31, 2009, by type of loan:

| (thousands of dollars) | Due in one year or less | Due after one year through five years | Due after five years | Total |
|---|---|---|---|---|
| Commercial real estate | $ 31,578 | $ 47,701 | $ 150,946 | $ 230,225 |
| Residential real estate | 6,073 | 5,738 | 183,760 | 195,572 |
| Construction loans | 97,863 | 3,985 | 52,609 | 154,457 |
| Construction to permanent loans | - | - | 15,990 | 15,990 |
| Commercial loans | 9,715 | 4,187 | 5,397 | 19,298 |
| Consumer installment | 1,057 | 98 | - | 1,155 |
| Consumer home equity | 2,394 | 84 | 41,831 | 44,309 |
| Total | $ 148,680 | $ 61,793 | $ 450,533 | $ 661,006 |
| | | | | |
| Fixed rate loans | $ 19,112 | $ 29,984 | $ 15,093 | $ 64,189 |
| Variable rate loans | 129,568 | 31,809 | 435,440 | 596,817 |
| Total | $ 148,680 | $ 61,793 | $ 450,533 | $ 661,006 |

Loan Concentrations

The Bank has no concentrations of loans other than those disclosed in the above summary loan portfolio table.

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 collectability 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 for loan losses decreased slightly by $453,000 from December 31, 2008 to December 31, 2009 due to net charge-offs of $13.6 million after provisions of $13.1 million.

The allowance consists of allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan.

The Bank obtains current appraisals on all real estate and construction loans maturing in the coming four months, as well as for loans added to special mention. When a loan is placed on non-accrual status the loan is considered impaired. For collateral dependent loans, the appraised value is then reduced by estimated liquidation expenses and any senior liens and the result is compared to the principal loan balance to determine the impairment amount, if any. For loans that are not collateral dependent and for which a restructure is in place, the impairment is determined by using the discounted cash flow method which takes into account the difference between the original interest rate and the restructured rate.

The general component covers all other loans, segregated generally by loan type, and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data. In addition, a risk rating system is utilized to evaluate the general component of the allowance for loan losses. Management assigns risk ratings to commercial and industrial loans, construction loans and commercial real estate loans assigning ratings between one and nine, with a rating of one being the least risk, and a rating of nine reflecting the most risk or a complete loss. Risk ratings are assigned based upon the recommendations of the credit analyst and the originating loan officer and confirmed by the loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loans assigned a risk rating of six or above are monitored more closely by the credit administration officers and loan committee.

The allowance for loan losses reflects management’s estimate of probable but unconfirmed losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, unfavorable information about a borrower’s financial condition, delays in obtaining information, 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. In 2008, the Bank created an internal loan review position in addition to the semi-annual loan reviews performed by an external independent firm. In 2009 the loan review position was expanded to a department of two employees. Loan review reports on a quarterly basis to the Audit Committee.

The methodology for determining the adequacy of the allowance for loan losses has been consistently applied; however, in the future, 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, and prevailing internal and external factors including but not limited to current economic conditions and local real estate markets.

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 year ended December 31, 2009 of $13.1 million represents an increase of $1.8 million when compared to the provision of $11.3 million for the year ended December 31, 2008.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management considers all non-accrual loans and certain restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days, based on contractual terms, are considered collection delays and the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

Analysis of Allowance for Loan Losses

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | | | (thousands of dollars) | | |
| Balance at beginning of period | $ 16,247 | $ 5,673 | $ 5,630 | $ 4,588 | $ 3,481 |
| Charge-offs: | | | | | |
| Commercial real estate | (2,380) | (708) | (32) | (1) | (3) |
| Residential real estate | (356) | - | - | - | - |
| Construction | (9,097) | - | - | - | - |
| Commercial | (468) | - | - | - | - |
| Consumer home equity | (1,378) | - | - | - | - |
| Consumer | (51) | (8) | - | - | - |
| Total charge-offs | (13,730) | (716) | (32) | (1) | (3) |
| Recoveries | 188 | 1 | - | 3 | - |
| Net (charge-offs) recoveries | (13,542) | (715) | (32) | 2 | (3) |
| Additions charged to operations | 13,089 | 11,289 | 75 | 1,040 | 1,110 |
| Balance at end of period | $ 15,794 | $ 16,247 | $ 5,673 | $ 5,630 | $ 4,588 |
| Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period | (1.81%) | (0.09%) | (0.00%) | 0.00% | (0.00%) |
| Ratio of ALLL / Gross Loans | 2.39% | 2.02% | 0.82% | 1.10% | 1.24% |

38

Allocation of the Allowance for Loan Losses

| | Amounts (thousands of dollars) | | | | | Percent of loans in each category to total loans | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at end of each period applicable to: | 2009 | 2008 | 2007 | 2006 | 2005 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Real Estate: | | | | | | | | | | |
| Commercial | $ 5,752 | $ 4,843 | $ 1,963 | $ 1,943 | $ 1,607 | 34.83% | 32.59% | 33.63% | 32.46% | 34.95% |
| Residential | 1,575 | 1,417 | 296 | 245 | 511 | 29.59% | 21.16% | 15.89% | 17.72% | 20.94% |
| Construction | 6,557 | 8,654 | 2,644 | 2,557 | 1,963 | 23.37% | 31.91% | 36.68% | 33.83% | 29.01% |
| Construction to permanent | 93 | 264 | 391 | 441 | - | 2.42% | 4.42% | 5.44% | 5.84% | 0.00% |
| Commercial | 521 | 471 | 271 | 290 | 164 | 2.92% | 4.20% | 3.97% | 4.67% | 4.22% |
| Consumer installment | 47 | 28 | 30 | 31 | 10 | 0.17% | 0.12% | 0.18% | 0.24% | 0.30% |
| Consumer home equity | 703 | 336 | 77 | 72 | 260 | 6.70% | 5.59% | 4.21% | 5.24% | 10.58% |
| Unallocated | 546 | 234 | 1 | 51 | 73 | N/A | N/A | N/A | N/A | N/A |
| Total | $ 15,794 | $ 16,247 | $ 5,673 | $ 5,630 | $ 4,588 | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Non-Accrual, Past Due and Restructured Loans

The following table is a summary of non-accrual and past due loans at the end of each of the last five years.

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | (thousands of dollars) | | | | |
| Loans delinquent over 90 days still accruing | $3,571 | $337 | $112 | $1,897 | $275 |
| Non-accrual loans | 113,537 | 80,156 | 3,832 | 2,904 | 1,935 |
| | $117,108 | $80,493 | $3,944 | $4,801 | $2,210 |
| % of Total Loans | 17.72 % | 10.21 % | 0.57 % | 0.93 % | 0.60 % |
| % of Total Assets | 13.52 % | 8.81 % | 0.49 % | 0.74 % | 0.47 % |
| Additional income on non-accrual loans if recognized on an accrual basis | $5,312 | $2,854 | $168 | $141 | $6 |

During 2009, 2008 and 2007, interest income collected and recognized on impaired loans was $424,745, $352,014 and $30,179, respectively.

At December 31, 2009, there were nine loans totaling $11.5 million that were considered as "troubled debt restructurings", all of which are included in non-accrual and impaired loans, as compared to 11 loans totaling $16.7 million at December 31, 2008, of which eight loans totaling $12.4 million were included in non-accrual and impaired loans. Loan modifications, which resulted in these loans being considered troubled debt restructurings, are primarily in the form of rate concessions. Commitments to advance additional funds under modified terms for these loans total approximately $998,000.

Increases in non-accrual loans and troubled debt restructurings are attributable to the state of the economy, which has severely impacted the real estate market and placed unprecedented stress on credit markets. Residents of Fairfield County, many of whom are associated with the financial services industry, have been affected by the impact of the economy on employment and real estate values.

The Company's most recent impairment analysis resulted in identification of $113.5 million of impaired loans for which specific reserves of $3.9 million were required. The $113.5 million of impaired loans at December 31, 2009 is comprised of exposure to fifty-eight borrowers. Loans totaling $108.1 million that are collateral dependent are secured by residential or commercial real estate located within the Bank's market area. In all cases, the Bank has obtained current appraisal reports from independent licensed appraisal firms and reduced those values for estimated liquidation expenses to determine estimated impairment. Based on the Bank's analysis for loan impairment, specific reserves totaling $3.8 million have been established for collateral dependent loans. Impairment related to loans totaling $5.4 million has been measured based on discounted cash flow resulting in specific reserves of $102,000. Such loans are also secured by real estate. Of the $113.5 million of impaired loans at December 31, 2009, twenty borrowers with aggregate balances of $20.9 million continue to make loan payments and these loans are under 30 days past due as to payments. Another 28 loans totaling

$36.6 million are over 30 days but under 90 days past due as to payments. In addition to the impaired loans, there are $68.9 million of loans for which management has a concern as to the ability of the borrower to comply with the present repayment terms. These borrowers continue to make payments and these loans are less than 90 days past due at year end. This exposure is comprised of thirty-five borrowers.

Loans delinquent over 90 days and still accruing aggregating $3.6 million are comprised of eleven loans which matured and are in the process of being renewed or awaiting payoff.

All potential problem loans are reviewed weekly by a board-level committee.

Based upon the overall assessment and evaluation of the loan portfolio, management believes the allowance for loan losses of $15.8 million, at December 31, 2009, which represents 2.39% of gross loans outstanding, is adequate under prevailing economic conditions, to absorb existing losses in the loan portfolio. At December 31, 2008, the allowance for loan losses was $16.2 million, or 2.02%, of gross loans outstanding.

Other Real Estate Owned

The following table is a summary of Patriot's other real estate owned as of December 31, 2009. The Bank had no other real estate owned as of December 31, 2008.

| | December 31, 2009 |
|---|---|
| Residential construction | $ 13,524,597 |
| Commercial | 4,934,896 |
| Land | 614,500 |
| | |
| Other real estate owned | $ 19,073,993 |

The balance of other real estate owned at December 31, 2009 is comprised of nine properties that were obtained through loan foreclosure proceedings during the year ended December 31, 2009.

Deferred Taxes

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Management has reviewed the deferred tax position of Patriot at December 31, 2009. The deferred tax position has been affected by several significant transactions in the past three years. These transactions include increased provision for loan losses, the increasing levels of non-accrual loans and other-than-temporary impairment write-offs of certain investments. As a result, the Company is in a cumulative net loss position at December 31, 2009, and under the applicable accounting guidance, has concluded that it is not more-likely-than-not that the Company will be able to realize its deferred tax assets and accordingly has established a full valuation allowance totaling $12.2 million against its deferred tax asset at December 31, 2009. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. If, in the future, the Company generates taxable income on a sustained basis, management's conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

At December 31, 2009, the deferred tax liability was approximately $503,000. The change in this balance as compared to the year ended December 31, 2008 was the result of a full valuation allowance of $12.2 million being recorded in 2009. At December 31, 2008, the deferred tax asset was $8.7 million.

Other Assets

Other assets increased by $8.0 million from $1.4 million at December 31, 2008 to $9.4 million at December 31, 2009. This increase consists primarily of income taxes receivable from the $6.4 million benefit from the carryback of the tax net operating loss incurred during 2009.

Deposits

The following table is a summary of Patriot's deposits at December 31 for each of the years shown:

| | | 2009 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|
| Non-interest bearing | $ | 49,755,521 | $ | 50,194,400 | $ | 51,925,991 |
| Interest bearing | | | | | | |
| Time certificates, less than $100,000 | | 305,719,484 | | 405,298,436 | | 300,502,281 |
| Time certificates, $100,000 or more | | 202,493,307 | | 195,502,087 | | 231,366,788 |
| Money markets | | 112,017,987 | | 68,241,790 | | 34,880,837 |
| Savings | | 69,766,296 | | 46,040,086 | | 34,261,389 |
| NOW | | 21,581,697 | | 19,544,552 | | 19,462,123 |
| Total interest bearing | | 711,578,771 | | 734,626,951 | | 620,473,418 |
| Total deposits | $ | 761,334,292 | $ | 784,821,351 | $ | 672,399,409 |

Total deposits decreased $23.5 million, or 3%, to $761.3 million at December 31, 2009. Interest bearing deposits decreased $23.0 million, or 3%, to $711.6 million while non-interest bearing deposits decreased $439,000, or 1%, to $49.8 million at December 31, 2009.

Certificates of deposit decreased by $92.6 million, which represents a decrease of 15% when compared to last year. Much of the decline is largely attributable to the $69.7 million, or 79%, decrease in the retail and wholesale CDARS deposits. Certificates of deposit less than $100,000 decreased by $99.6 million, or 25%, mainly due to the maturity of higher rate certificates of deposit, which was offset by an increase of $7.0 million in certificates of deposit greater than $100,000. Savings accounts increased $23.7 million or 52% as compared to last year, which is due primarily to a more competitively priced commercial savings product. Demand deposits decreased $439,000 while NOW accounts increased $2.0 million. Money market fund accounts increased $43.8 million or 64%. The increase in money market accounts and decrease in certificates of deposit is attributable to customers refraining from locking into long-term rates in the current lower rate environment. The growth in money markets is also attributable to depositors placing funds in FDIC-insured products during these uncertain economic times. As mentioned earlier, the FDIC has also extended the increased level of insurance from $100,000 to $250,000 until December 31, 2013.

As of December 31, 2009, the Bank's maturities of time deposits were:

| | Less than $100,000 | $100,000 or greater (thousands of dollars) | Totals |
|---|---|---|---|
| Three months or less | $ 88,485 | $ 56,841 | $ 145,326 |
| Four to six months | 39,507 | 22,941 | 62,448 |
| Seven months to one year | 79,889 | 49,284 | 129,173 |
| Over one year | 97,839 | 73,427 | 171,266 |
| Total | $ 305,720 | $ 202,493 | $ 508,213 |

Borrowings

Borrowings remain unchanged at $65.2 million at December 31, 2009 as compared to December 31, 2008. Borrowings are comprised of $50 million in Federal Home Loan Bank Advances, $8.2 million in junior subordinated debentures and $7 million in securities sold under repurchase agreements. The securities sold under repurchase agreements were utilized as an interest rate leveraging strategy.

The Bank had no short-term borrowings from the Federal Home Loan Bank outstanding at December 31, 2009 and 2008. In addition, at December 31, 2009, the Bank has advances of $50.0 million from the Federal Home Loan Bank with maturities greater than one year.

Other

The aggregate cash surrender value of the bank-owned life insurance increased to $19.9 million at December 31, 2009 due to income earned of $725,000 for the year ended December 31, 2009.

The decrease in accrued interest receivable is due to decline in the investment securities and loan portfolios.

The decrease in premises and equipment is due to amortization associated with leasehold improvements, furniture and fixtures, and equipment.

The following table presents average balance sheets (daily averages), interest income, interest expense and the corresponding yields earned and rates paid:

Distribution of Assets, Liabilities and Shareholder's Equit
Interest Rates and Interest Differential and Rate Volume Variance A
(thousands of dollars)

| | 2009 | | | 2008 | | | 2007 | | | 2009 vs. |
|---|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Average Rate | Average Balance | Interest Income/ Expense | Average Rate | Average Balance | Interest Income/ Expense | Average Rate | Interest In Due Volume |
| Interest earning assets: | | | | | | | | | | |
| Loans (2) | $ 750,127 | $ 41,121 | 5.48% | $ 771,174 | $ 52,484 | 6.81% | $ 598,525 | $ 46,949 | 7.84% | $ (1,393) |
| Federal funds sold and other cash equivalents | 104,668 | 218 | 0.21% | 12,435 | 325 | 2.61% | 40,000 | 2,058 | 5.15% | 435 |
| Investments (4) | 44,070 | 1,629 | 3.70% | 63,199 | 2,941 | 4.65% | 67,420 | 2,855 | 4.23% | (783) |
| Total interest earning assets | $ 898,865 | $ 42,968 | 4.78% | $ 846,808 | $ 55,750 | 6.58% | $ 705,945 | $ 51,862 | 7.35% | (1,741) |
| | | | | | | | | | | |
| Cash and due from banks | 22,639 | | | 5,993 | | | 4,155 | | | |
| Allowance for loan losses | (16,689) | | | (7,575) | | | (5,613) | | | |
| Other assets | 43,447 | | | 37,209 | | | 19,813 | | | |
| Total Assets | $ 948,262 | | | $ 882,435 | | | $ 724,300 | | | |
| | | | | | | | | | | |
| Interest bearing liabilities: | | | | | | | | | | |
| Time certificates | $ 592,724 | $ 18,828 | 3.18% | $ 568,717 | $ 23,561 | 4.14% | $ 483,918 | $ 24,811 | 5.13% | $ 953 |
| Savings accounts | 59,103 | 1,120 | 1.89% | 40,252 | 992 | 2.46% | 30,657 | 747 | 2.44% | 392 |
| Money market accounts | 106,091 | 1,917 | 1.81% | 54,321 | 1,229 | 2.26% | 38,526 | 699 | 1.81% | 973 |
| NOW accounts | 21,582 | 156 | 0.72% | 21,044 | 186 | 0.88% | 26,612 | 267 | 1.00% | 5 |
| FHLB advances | 50,003 | 1,699 | 3.40% | 57,716 | 1,726 | 2.99% | 11,174 | 511 | 4.57% | (215) |
| Subordinated debt | 8,248 | 331 | 4.01% | 8,248 | 536 | 6.50% | 8,248 | 691 | 8.38% | - |
| Other borrowings | 7,000 | 309 | 4.41% | 7,005 | 309 | 4.41% | 927 | 41 | 4.42% | - |
| Total interest bearing | $ 844,751 | $ 24,360 | 2.88% | $ 757,304 | $ 28,539 | 3.77% | $ 600,062 | $ 27,767 | 4.63% | 2,108 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| liabilities | | | | | | | | | | |
| Demand deposits | 47,810 | | | 53,380 | | | 52,992 | | | |
| Accrued expenses and and other liabilities | 3,810 | | | 4,502 | | | 5,441 | | | |
| Shareholder's equity | 51,891 | | | 67,250 | | | 65,805 | | | |
| Total liabilities and equity | $ 948,262 | | | $ 882,435 | | | $ 724,300 | | | |
| Net interest income | | $ 18,608 | | | $ 27,211 | | | $ 24,095 | | $ (3,849) $ |
| Interest margin | | | 2.07% | | | 3.21% | | | 3.41% | |
| Interest spread | | | 1.90% | | | 2.81% | | | 2.72% | |

(1) The rate volume analysis reflects the changes in net interest income arising from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to volume includes changes in interest attributable to mix.

(2) Includes non-accruing loans

(3) Favorable/(unfavorable) fluctuations.

(4) Yields are calculated at historical cost and excludes the effects of unrealized gains or losses on available-for-sale securities.

45

## RESULTS OF OPERATIONS

### Comparison of Results of Operations for the years 2009 and 2008

For the year ended December 31, 2009, Patriot recorded a loss of $23.9 million ($5.02 basic and diluted loss per share), as compared to 2008 when Patriot reported a net loss of $7.1 million ($1.50 basic and diluted loss per share). For the year ended December 31, 2009, Patriot had a pre-tax loss of $21.7 million with a tax provision of $2.2 million as compared to a pre-tax loss of $10.2 million with a tax benefit of $3.1 million for the year ended December 31, 2008.

Interest and dividend income decreased $12.8 million, or 23%, to $43.0 million in 2009 as compared to 2008 when interest and dividend income was $55.8 million. The decline in interest income on loans is primarily the result of a significant increase in the level of non-accrual loans and lower rates on loans. Interest income on investments decreased due to decreases in rates and a decline in the average balance of investments outstanding.

Interest expense decreased $4.2 million, or 15%, to $24.4 million in 2009 compared to $28.5 million in 2008. The decrease in interest expense is primarily a result of the decrease in interest rates paid partially offset by an increase in the average balance of interest bearing liabilities. The decrease in interest rates was driven primarily by the planned reduction in higher rate certificates of deposit.

Noninterest income was $2.9 million in 2009 as compared to a loss of $149,000 in 2008. The change is due largely to the impairment charges in 2008 of $1.1 million that were recorded for a FHLMC auction rate preferred equity security and $2.1 million relating to other auction rate preferred equity securities.

Noninterest expenses for 2009 totaled $30.1 million, which represents an increase of $4.2 million, or 16%, over the prior year. The increase in noninterest expenses is a result of a $2.4 million increase in expenditures relating to professional fees and other outside services, which largely pertain to the significant increase in non-performing assets, regulatory matters and capital raising efforts. In addition to these expenses was a $2.4 million increase in FDIC and OCC regulatory assessments.

The following are measurements relating to Patriot’s earnings:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| (Loss) return on average assets | (2.52%) | (0.81%) | 0.37% |
| (Loss) return on average equity | (46.02%) | (10.62%) | 4.07% |
| Dividend payout ratio | N / A | N / A | 32.14% |
| Average equity to average assets | 5.47% | 7.59% | 9.09% |
| Basic and diluted (loss) income per share | $ (5.02) | $ (1.50) | $ 0.56 |

Interest income and expense

Patriot’s net interest income decreased $8.6 million, or 32%, to $18.6 million in 2009 from $27.2 million in 2008. Despite an increase in average earning assets of $52.1 million, or 6%, Patriot’s interest income decreased by $12.8 million, or 23%, from $55.8 million in 2008 to $43.0 million in 2009. Average loans outstanding decreased $21.0 million, or 3%, and there was a decline in the yield on loans of 133 basis points due to increased non-accrual loans and a lower rate environment. The income on investments decreased due to lower volume and lower yields during 2009. This resulted in a decrease in interest income of $1.3 million. The average balances of federal funds sold and short-term investments increased $92.2 million to $104.7 million for 2009 as compared to $12.4 million for 2008 due to short-term liquidity receiving a higher yield than what was being paid in federal funds sold.

Total average interest bearing liabilities increased by $87.4 million, or 12%. Average balances of certificates of deposit increased $24.0 million, or 4%. Average balances in savings accounts increased $18.9 million, or 47%, which is reflective of Patriot providing a competitively priced commercial statement savings product. Average money market accounts increased $51.8 million, or 95%, which is a result of the significant growth in consumer money market accounts. The increase in money market accounts is attributable to customers refraining from locking into long-term rates in the current lower rate environment. The growth is also attributable to depositors placing funds in FDIC-insured products during these uncertain economic times. The FDIC has also extended the increased level of insurance from $100,000 to $250,000 until December 31, 2013. Average FHLB advances decreased $7.7 million, or 13%. Total interest expense decreased $4.2 million, or 15%, from $28.5 million in 2008 to $24.4 million in 2009. Interest expense on certificates of deposit decreased $4.7 million and the cost of funds for this portfolio decreased from 4.14% in 2008 to 3.18% in 2009. This is primarily the result of the maturity of higher rate certificates of deposit. Decreases in the average balances outstanding of FHLB advances resulted in a corresponding decrease in interest expense of $27,000. The cost of funds for the FHLB advances increased from 2.99% in 2008 to 3.40% in 2009 due to lower rate advances paying off. The decrease in the index to which the junior subordinated debt interest rate is tied resulted in a decline in interest expense of $205,000, or 38%.

Management regularly reviews loan and deposit rates and attempts to price Patriot’s products competitively. Patriot tracks its mix of asset/liability maturities and strives to maintain a reasonable match. Performance ratios are reviewed monthly by management and the Board and are used to set strategies.

Provision for loan losses

The increased provision for the current year was based on the higher level of non-accrual and past due loans, and management's assessment of the impact of changes in the national, regional and local economic and business conditions have had on the Bank's loan portfolio. 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 impacted local real estate markets. It appears the local real estate prices have stabilized and market activity has increased. The Bank continues to maintain conservative underwriting standards including low loan to value ratio guidelines.

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

Non-interest income

Non-interest income improved $3.1 million from a loss of $149,000 in 2008 to $2.9 million of income in 2009. The increase is due primarily to the fact that impairment charges of $1.1 million were recorded in 2008 for a FHLMC auction rate preferred equity security and $2.1 million relating to other auction rate preferred equity securities. During 2009, there were increases in gains/redemption of investment securities of $451,000 and activity based deposit fees and service charges of $34,000. These were partially offset by lower revenue from the Bank-owned life insurance of $217,000, other income of $148,000, loan origination and processing fees of $123,000 and a reduction in mortgage brokerage referral fee income of $70,000.

Non-interest expenses

Non-interest expenses increased $4.2 million, or 16%, from $25.9 million in 2008 to $30.1 million in 2009. Salaries and benefits decreased $213,000, or 2%, in 2009 compared to 2008, due primarily to lower performance-based compensation. Occupancy and equipment expenses increased $131,000, or 2%, from $5.5 million in 2008 to $5.6 million in 2009. This increase is due primarily to additional administrative and operational offices. For the year ended December 31, 2009, data processing increased $87,000, or 7%, to $1.4 million from $1.3 million for the year ended December 31, 2008. Regulatory assessments increased $2.4 million from $726,000 for the year ended December 31, 2008 to $3.2 million for the year ended December 31, 2009; most of this increase is due to the increase in the assessment rates for the FDIC and OCC deposit insurance premiums. Professional and other outside services increased $2.2 million from $1.8 million for the year ended December 31, 2008 to $4.0 million for the year ended December 31, 2009. This is due primarily to an increase in external and internal audit fees and legal fees relating to the significant increase in non-performing assets. In addition, the increase relates to an increased amount of expenditures relating to consulting fees, which largely pertain to the significant increase in non-performing assets, regulatory matters and capital raising efforts.

Other real estate operations expenses increased $794,000 for the year ended December 31, 2009 from $0 for the year ended December 31, 2008.  This increase is due to expenses incurred by the Bank relating to nine properties obtained through loan foreclosure proceedings during the year ended December 31, 2009.

Income Taxes

The Company recognizes income taxes under the asset and liability method.  Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.  The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.  Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

During the year ended December 31, 2009, Patriot established a full valuation allowance against the net deferred tax asset, which resulted in an increase to the valuation allowance of $11.4 million.  The possibility of further loan losses and higher cost levels associated with carrying nonperforming assets, coupled with Patriot's losses beginning in the third quarter of 2008, creates sufficient uncertainty regarding the Company's ability to realize these deferred tax assets.  In future periods, if it becomes more likely that these assets can be utilized, Patriot may reverse some or all of the valuation allowance.  Evidence to substantiate reversing the allowance would include sustained profitability.

Comparison of Results of Operations for the years 2008 and 2007

For the year ended December 31, 2008, Patriot recorded a loss $7.1 million ($1.50 basic and diluted loss per share), as compared to 2007 when Patriot reported net income of $2.7
million ($0.56 basic and diluted income per share).

Interest and dividend income increased $3.9 million or 7% to $55.8 million in 2008 as compared to 2007 when interest and dividend income was $51.9 million.  The growth in the loan portfolio is the key reason for this increase.

Interest expense increased $772,000, or 3%, to $28.5 million in 2008 compared to $27.8 million in 2007.  The increase in interest expense is reflective of the increases in total interest-bearing liabilities offset by lower rates paid during the year.

Non-interest income decreased $2.4 million to ($149,000) in 2008 as compared to $2.2 million in 2007.  The decrease is due largely to other-than-temporary impairment charges on auction rate preferred securities.  Non-interest expenses for 2008 totaled $25.9 million, which represents an increase of $3.9 million or 18% over the prior year. The increase in non-interest expenses is a result of higher operating costs primarily associated with occupancy and equipment expenses reflective of the full year's impact of the branches that were opened in 2007, the opening of the new Stratford, Connecticut branch office and expanded administrative and operational offices. In addition to these increases was growth in expenditures relating to professional services, employee expenses and FDIC regulatory assessments.

The following are measurements relating to Patriot's earnings:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| (Loss) return on average assets | (0.81) | 0.37% | 0.44% |
| (Loss) return on average equity | (10.62) | 4.07% | 5.97% |
| Dividend payout ratio | N / A | 32.14% | 26.12% |
| Average equity to average assets | 7.59% | 9.09% | 7.41% |
| Basic income per share | $ (1.50) | $ 0.56 | $ 0.67 |
| Diluted income per share | $ (1.50) | $ 0.56 | $ 0.66 |

Interest income and expense

Patriot's net interest income increased $3.1 million, or 13%, to $27.2 million in 2008 from $24.1 million in 2007. An increase in average earning assets of $140.9 million, or 20%, increased Patriot's interest income by $3.9 million, or 7%, from $51.9 million in 2007 to $55.8 million in 2008. Average loans outstanding increased $172.6 million, or 29%. However, growth in the loan portfolio was partially offset by a decline in yield on loans of 103 basis points. The yield on investments increased 42 basis points and was partially offset by the decrease in the volume of investments. The average balances of federal funds sold and short-term investments decreased $27.6 million to $12.4 million at December 31, 2008 as compared to $40.0 million at December 31, 2007. This resulted in a decrease in interest income of $1.7 million.

Total average interest bearing liabilities increased by $157.2 million or 26%. Average balances of certificates of deposit increased $84.8 million or 18%. Average balances in savings accounts increased $9.6 million or 31%, which is reflective of Patriot providing a competitively priced commercial statement savings product. Average money market accounts increased $15.8 million or 41%, which is a result of the significant growth in consumer money market premium accounts. Average FHLB advances increased $46.5 million, which was due primarily to Patriot utilizing these to extend liabilities and better manage the balance sheet. Interest expense increased $772,000 or 3% from $27.8 million in 2007 to $28.5 million in 2008. Interest expense on certificates of deposit increased $4.0 million as a result of an increase in average outstanding balances while the decrease in the cost of funds for that portfolio from 5.13% in 2007 to 4.14% in 2008 resulted in a decrease in interest expense of $5.2 million. Increases in the average balances outstanding of FHLB advances resulted in an increase in interest expense of $1.4 million and a decrease in the interest rates paid on FHLB advances resulted in a decrease in interest expense of $233,000; this resulted in an aggregate increase in interest expense of $1.2 million in 2008 as compared to 2007.

During the year the Company availed itself of funds available through the CDARS network as an alternative and less expensive funding source.

Management regularly reviews loan and deposit rates and attempts to price Patriot's products competitively. Patriot tracks its mix of asset/liability maturities and strives to maintain a reasonable match. Performance ratios are reviewed monthly by management and the Board and are used to set strategies.

Provision for loan losses

The increased provision for the current year was based upon management's assessment of the impact changes in the national, regional and local economic and business conditions have had on the Bank's loan portfolio. 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. While the marketing time of local real estate has expanded and prices have declined, the Bank continues to maintain conservative underwriting standards including low loan to value ratio guidelines.

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

Non-interest income

Non-interest income decreased $2.4 million from $2.2 million in 2007 to ($149,000) in 2008. The decrease is due to impairment charges of $2.1 million relating to the auction rate preferred equity security portfolio and $1.05 million recorded for a FHLMC auction rate preferred equity security in the third quarter, along with a reduction in mortgage brokerage referral fee income of $498,000. These were partially offset by increases in loan origination and processing fees of $143,000, activity based deposit fees and service charges of $152,000, earnings on Bank-owned life insurance of $748,000, in addition to increases in debit card transaction fees of $31,000 and other income of $214,000.

Non-interest expenses

Non-interest expenses increased $3.9 million, or 18%, in 2008 from $22.0 million in 2007 to $25.9 million in 2008. A significant portion of the increase in noninterest expense was due to a $1.4 goodwill impairment charge recorded in the fourth quarter. Salaries and benefits increased $241,000, or 2%, in 2008 compared to 2007, due primarily to higher costs relating to branch openings in 2007 offset by lower performance-based compensation. Occupancy and equipment expenses increased $1.1 million or 24% from $4.5 million in 2007 to $5.5 million in 2008. This increase is due primarily to the opening of one new branch location in 2008 along with the full year impact of the six branches opened during 2007, as well as additional administrative and operational offices. For the year ended December 31, 2008 data processing increased $173,000 or 15% to $1.3 million from $1.1 million for the year ended December 31, 2007; this increase is due primarily to increases in bank service charges and item processing and correspondent banking charges. Regulatory assessments increased $143,000, or 24%, from

$583,000 for the twelve months ended December 31, 2007 to $726,000 for the twelve months ended December 31, 2008; most of this increase is due to the increase in the assessment rates for the FDIC deposit insurance premiums. Professional and other outside services increased $355,000 from $1.4 million for the twelve months ended December 31, 2007 to $1.8 million for the twelve months ended December 31, 2008. This is due primarily to an increase in legal fees of $185,000 and audit and accounting fees of $266,000.

Income Taxes

The provision (benefit) for income taxes represents the tax expense (benefit) recognized for both federal and state income taxes. Patriot recorded an income tax benefit of $3.1 million for the year ended December 31, 2008 as compared to income tax expense of $1.5 million for the year ended December 31, 2007. The effective tax rates for the years ended December 31, 2008 and December 31, 2007 were 30.1% and 36.5%, respectively. The change in effective tax rates from 2007 to 2008 is due primarily to the valuation allowance related to the Company’s deferred tax assets, the exclusion for income tax purposes of the earnings on the Bank-owned life insurance and permanent differences relating to the write down of goodwill.

LIQUIDITY

Patriot’s liquidity position was 18% and 8% at December 31, 2009 and 2008, 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 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 Patriot’s ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover increases in its loan portfolio and downward fluctuations in deposit accounts. Management believes Patriot’s short-term assets have sufficient liquidity to satisfy loan demand, cover potential fluctuations in deposit accounts and to meet other anticipated cash requirements.

At December 31, 2009, cash and cash equivalents and securities classified as available-for-sale were $107.8 million and $48.8 million, respectively. In addition to Federal Home Loan Bank advances outstanding at December 31, 2009, the Bank had the ability to borrow an additional $160.0 million from the Federal Home Loan Bank of Boston, which included a $2.0 million overnight line of credit. At December 31, 2009 the Bank had $50.0 million in Federal Home Loan Bank advances, none of which were under the overnight line of credit.

The following table presents Patriot's contractual obligations as of December 31, 2009:

| | Total | Less than one year | One to three years | Three to five years | Over five years |
|---|---|---|---|---|---|
| Certificates of deposit | $ 508,212,791 | $ 336,946,484 | $ 107,218,035 | $ 64,048,272 | $ - |
| Junior subordinated debt owed to unconsolidated trust | 8,248,000 | - | - | - | 8,248,000 |
| FHLB Advances | 50,000,000 | - | 10,000,000 | 20,000,000 | 20,000,000 |
| Securities sold under agreements to repurchase | 7,000,000 | - | - | - | 7,000,000 |
| Operating lease obligations | 16,812,581 | 2,843,498 | 5,513,546 | 4,362,620 | 4,092,917 |
| Total contractual obligations | $ 590,273,372 | $ 339,789,982 | $ 122,731,581 | $ 88,410,892 | $ 39,340,917 |

OFF-BALANCE SHEET ARRANGEMENTS

The following table presents Patriot's off-balance sheet commitments as of December 31, 2009. These commitments 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 or are contingent upon the customer adhering to the terms of the agreements, the total commitment amounts do not necessarily represent future cash requirements.

| | |
|---|---|
| Future loan commitments | $ 3,378,751 |
| Unused lines of credit | 34,569,144 |
| Undisbursed construction loans | 17,682,552 |
| Financial standby letters of credit | 1,112,600 |
| Total commitments | $ 56,743,047 |

CAPITAL

The following table illustrates Patriot's regulatory capital ratios for each of the years shown:

| | December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Total Risk-Based Capital | 8.58% | 10.27% | 12.17% |
| Tier 1 Risk- Based Capital | 7.22% | 9.01% | 11.30% |
| Leverage Capital | 4.72% | 7.23% | 9.42% |

53

The following table illustrates the Bank's regulatory capital ratios for each of the years shown:

| | December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Total Risk-Based Capital | 8.58% | 10.22% | 12.03% |
| Tier 1 Risk- Based Capital | 7.22% | 8.96% | 11.15% |
| Leverage Capital | 4.72% | 7.19% | 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. Based on the above ratios, the Bank is considered to be "adequately capitalized" at December 31, 2009 under applicable regulations. To be considered "adequately capitalized," an institution must generally have a leverage capital ratio of at least 4%, a Tier 1 risk-based capital ratio of at least 4% and a total risk-based capital ratio of at least 8%. However, the OCC has the discretion to require increased capital levels.

Management continuously assesses the adequacy of the Bank's capital. Management's strategic and capital plans contemplate various alternatives to raise additional capital to support and strengthen the Bank's capital levels. Patriot has engaged various financial advisors to assist the Bank in this process. As described previously, on December 16, 2009, Patriot and Carrazza executed the SPA whereby Carrazza is expected to invest up to $50 million in Patriot in 2010.

2. For First Fiscal Quarter Ended March 31, 2010

Summary

Patriot incurred a net loss of $3.1 million ($0.66 basic and diluted loss per share) for the quarter ended March 31, 2010, as compared to a net loss of $1.1 million ($0.23 basic and diluted loss per share) for the quarter ended March 31, 2009. Patriot's net interest margin for the quarter ended March 31, 2010 was 3.10% as compared to 2.45% for the quarter ended March 31, 2009. The increase in net interest margin is a result of absorbing liquidity, a reduction in higher rate certificates of deposit, investment purchases and the impact of the repayment of back interest on one loan which had a 95 basis points positive impact on the net interest margin. Interest income and interest expense decreased by 22% and 46%, respectively, for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009. The significant decline is primarily due to the cost of funds decreasing by 132 basis points due to substantial declines in interest rates paid on deposits.

Total assets decreased $51.7 million from $866.4 million at December 31, 2009 to $814.7 million at March 31, 2010. Cash and cash equivalents decreased $43.6 million to $64.2 million at March 31, 2010, as compared to $107.8 million at December 31, 2009. The available for sale securities portfolio increased $14.2 million to $63.0 million at March 31, 2010 from $48.8 million at December 31, 2009 due to the purchase of $15.2 million in government agency bonds and mortgage-backed securities. The net loan portfolio decreased $20.3 million from $645.2 million at December 31, 2009 to $624.9 million at March 31, 2010. This is the result of continuing efforts to reduce concentration levels within the construction and commercial real estate loan portfolios and loan payoffs, including some on non-accrual status. Deposits decreased $49.5 million to $711.8 million at March 31, 2010 from $761.3 million at December 31, 2009. Deposits decreased as a result of the maturity of higher rate certificates of deposit. Borrowings remained unchanged as compared to December 31, 2009.

FINANCIAL CONDITION

Patriot's total assets decreased $51.7 million from $866.4 million at December 31, 2009 to $814.7 million at March 31, 2010. Cash and due from banks decreased $43.6 million compared to December 31, 2009 which is reflective of a significant decline in interest bearing deposits during the first quarter. Federal funds sold remained at $10.0 million. There was a $20.3 million decline in the loan portfolio, as Patriot reduced the concentration in construction and commercial real estate loans. Total investments increased by $13.7 million when compared to December 31, 2009. See Note 8 in Appendix C for discussion of regulatory capital.

Cash and Cash Equivalents

Cash and cash equivalents decreased $43.6 million, or 40%, to $64.2 million at March 31, 2010 compared to $107.8 million at December 31, 2009, due mainly to the decrease in cash and due from banks. Cash and due from banks decreased $43.6 million to $53.9 million at March 31, 2010 compared to $97.5 million at December 31, 2009. The decreased level of cash is reflective of the decline in deposits, which has improved the overall net interest margin.

Investments

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| U.S. Government Agency obligations | $ 15,473,875 | $ 5,108,500 |
| U.S. Government Agency mortgage-backed securities | 44,240,019 | 40,503,458 |
| Money market preferred equity securities | 3,286,626 | 3,218,023 |
| Total Available for Sale Securities | $ 63,000,520 | $ 48,829,981 |

Available for sale securities increased $14.2 million, or 29%, from $48.8 million at December 31, 2009 to $63.0 million at March 31, 2010. The increase is primarily due to the purchase of one government agency bond for $10.0 million and one government agency mortgage-backed security for $5.2 million during the quarter ended March 31, 2010. These purchases are part of management's plan to improve the yield and earnings on the Bank's liquid assets.

Patriot performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations, an impairment due to a deterioration in credit, management's plans and ability to maintain its investment in the security, the length of time and the amount by which the security has been in a loss position, the interest rate environment, the general economic environment and prospects or projections for improvement or deterioration.

Management has made the determination that none of the Bank's investment securities are other-than-temporarily impaired at March 31, 2010, and no impairment charges were recorded during the year ended March 31, 2010.

Loans

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Real Estate | | |
| Commercial | $226,521,896 | $230,225,306 |
| Residential | 205,584,121 | 195,571,225 |
| Construction | 130,986,865 | 154,457,082 |
| Construction to permanent | 13,396,736 | 15,989,976 |
| Commercial | 18,497,228 | 19,298,505 |
| Consumer home equity | 43,541,316 | 44,309,265 |
| Consumer installment | 1,347,956 | 1,155,059 |
| Total Loans | 639,876,118 | 661,006,418 |
| Premiums on purchased loans | 130,655 | 131,993 |
| Net deferred loan fees | (3,432 ) | (138,350 ) |
| Allowance for loan losses | (15,061,796 ) | (15,794,118 ) |
| Loans receivable, net | $624,941,545 | $645,205,943 |

Patriot's net loan portfolio decreased $20.3 million, or 3%, from $645.2 million at December 31, 2009 to $624.9 million at March 31, 2010. The decrease is primarily a result of loan payoffs, including some that were impaired and on non-accrual status, resulting in decreases in construction loans of $23.5 million, commercial real estate loans of $3.7 million, construction-to-permanent loans of $2.6 million, commercial loans of $0.8 million and HELOCs of $0.8 million. These decreases were partially offset by an increase of $10.0 million in residential real estate loans. The decrease also reflects net charge-offs for the quarter ended March 31, 2010 of $1.5 million. In an effort to reduce its concentration in construction and commercial real estate loans, Patriot has continued its moratorium of originating new loans in the construction and commercial real estate portfolios.

At March 31, 2010, the net loan to deposit ratio was 88% and the net loan to total assets ratio was 77%. At December 31, 2009, these ratios were 85% and 74%, respectively.

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 uncollectability 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 collectability 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 for loan losses decreased by $732,000 from December 31, 2009 to March 31, 2010 due to net charge-offs of $1.5 million after provisions of $727,000.

The allowance consists of allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. The Bank obtains current appraisals on all real estate and construction loans maturing in the subsequent four months, as well as for loans added to special mention. When a loan is placed on non-accrual status the loan is considered impaired. For collateral dependent loans, the appraised value is then reduced by estimated liquidation expenses and any senior liens and the result is compared to the principal loan balance to determine the impairment amount, if any. For loans that are not collateral dependent and for which a restructure is in place, the impairment is determined by using the discounted cash flow method which takes into account the difference between the original interest rate and the restructured rate.

The general component covers all other loans, segregated generally by loan type, and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data. In addition, a risk rating system is utilized to evaluate the general component of the allowance for loan losses. Management assigns risk ratings to commercial and industrial loans, construction loans and commercial real estate loans assigning ratings between one and nine, with a rating of one being the least risk, and a rating of nine reflecting the most risk or a complete loss. Risk ratings are assigned based upon the recommendations of the credit analyst and the originating loan officer and confirmed by the loan committee at the initiation of the transactions and are reviewed and changed, when necessary, during the life of the loan. Loans assigned a risk rating of six or above are monitored more closely by the credit administration officers and loan committee.

The allowance for loan losses reflects management's estimate of probable but unconfirmed losses inherent in the portfolio; such estimates are influenced by uncertainties in economic conditions, unfavorable information about a borrower’s financial condition, delays in obtaining information, 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. In 2008, the Bank created an internal loan review position in addition to the semi-annual loan reviews performed by an external independent firm. In 2009 the internal loan review function was expanded to a department of two employees. Loan Review reports on a quarterly basis to the Audit Committee.

The methodology for determining the adequacy of the allowance for loan losses has been consistently applied; however, in the future, 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, and prevailing internal and external factors including but not limited to current economic conditions and local real estate markets.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Management considers all non-accrual loans and certain restructured loans to be impaired. All interest accrued but not collected for loans that are placed on nonaccrual status is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

In most cases, loan payments that are past due less than 90 days, based on contractual terms, are considered collection delays and the related loans are not considered to be impaired. The Bank considers consumer installment loans to be pools of smaller balance homogeneous loans, which are collectively evaluated for impairment.

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

| (Thousands of dollars) | March 31, 2010 | March 31, 2009 |
|---|---|---|
| Balance at beginning of period | $ 15,794 | $ 16,247 |
| Charge-offs | (1,583 ) | (1,216 ) |
| Recoveries | 124 | - |
| Net Charge-offs | (1,459 ) | (1,216 ) |
| Provision charged to operations | 727 | 1,600 |
| Balance at end of period | $ 15,062 | $ 16,631 |
| | | |
| Ratio of net charge-offs during the period to average loans outstanding during the period | 0.22 % | 0.15 % |
| | | |
| Ratio of ALLL / Gross Loans | 2.35 % | 2.07 % |

Based upon the overall assessment and evaluation of the loan portfolio, management believes the allowance for loan losses of $15.1 million, at March 31, 2010, which represents 2.35% of gross loans outstanding, is adequate under prevailing economic conditions, to absorb existing losses in the loan portfolio.

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) | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Loans past due over 90 days still accruing | $ 11,192 | $ 3,571 |
| Non accruing loans | 110,100 | 113,537 |
| Total | $ 121,292 | $ 117,108 |
| % of Total Loans | 18.95% | 17.72% |
| % of Total Assets | 14.89% | 13.52% |

The loans past due over 90 days have matured and are either in the process of being renewed or awaiting payoff in full. Non-accruing loans including troubled debt restructurings, decreased by $3.4 million this quarter. Non-accrual loans and troubled debt restructurings are attributable to the lingering effects of the downturn in the economy, which has severely impacted the real estate market and placed unprecedented stress on credit markets. Residents of Fairfield County, Connecticut, many of whom are associated with the financial services industry, have been affected by the impact of the poor economy on employment and real estate values.

The $110.1 million of non-accrual loans at March 31, 2010 is comprised of exposure to sixty-one borrowers, for which a specific reserve of $4.4 million has been established. Loans totaling $84.0 million are collateral dependent and are secured by residential or commercial real estate located within the Bank's market area. In all cases, the Bank has obtained current appraisal reports from independent licensed appraisal firms and discounted those values for estimated liquidation expenses to determine estimated impairment. Based on the Bank's analysis for loan impairment, specific reserves totaling $3.4 million are related to collateral dependent impaired loans. Impairment related to loans totaling $26.1 million to 12 borrowers has been measured based on discounted cash flows resulting in specific reserves of $940,000. Such loans are also secured by real estate. Of the $110.1 million of non-accrual loans at March 31, 2010, 26 borrowers with aggregate balances of $39.5 million continue to make loan payments and these loans are current as to payments.

Independent real estate tracking reports indicate that the real estate market in Fairfield County, Connecticut, where the majority of the properties securing the Bank's loans are located, has improved in terms of higher average prices and significantly greater sales volume. Management believes the local real estate market is beginning to show signs of stabilization and improvement.

Loans delinquent over 90 days and still accruing aggregating $11.2 million are comprised of fourteen loans, all of which have matured, continue to make payments and are either in the process of being renewed or awaiting payoff in full.

Potential Problem Loans

In addition to the above, there are $69.7 million of substandard loans comprised of 37 borrowers and $63.3 million of special mention loans comprised of 40 borrowers for which management has a concern as to the ability of the borrowers to comply with the present repayment terms. Borrowers continue to make payments and loans totaling $64.6 million are less than 30 days past due at March 31, 2010, and $5.1 million are less than 60 days past due.

Other Real Estate Owned

The following table is a summary of Patriot's other real estate owned at the dates shown:

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Construction | $ 13,080,399 | $ 13,524,597 |
| Commercial | 4,512,297 | 4,934,896 |
| Land | 614,500 | 614,500 |
| Other real estate owned | $ 18,207,196 | $ 19,073,993 |

The balance of other real estate owned at March 31, 2010 is comprised of eight properties that were obtained through loan foreclosure proceedings. During the quarter ended March 31, 2010, no new other real estate owned properties were acquired and one property was sold.

Deferred Taxes

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. Management has reviewed the deferred tax position of Patriot at March 31, 2010. The deferred tax position has been affected by several significant matters in the past three years. These matters include increased levels of provision for loan losses, the increasing levels of non-accrual loans and other-than-temporary impairment write-offs of certain investments. As a result, Patriot is in a cumulative net loss position at March 31, 2010, and under the applicable accounting guidance, has concluded that it is not more-likely-than-not that the Company will be able to realize the deferred tax assets and accordingly has established a full valuation allowance totaling $12.2 million against its net deferred tax asset at March 31, 2010. The valuation allowance is analyzed quarterly for changes affecting the deferred tax asset. If, in the future, Patriot generates taxable income on a sustained basis, management's conclusion regarding the need for a deferred tax asset valuation allowance could change, resulting in the reversal of all or a portion of the deferred tax asset valuation allowance.

Deposits

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Non-interest bearing | $ 49,314,543 | $ 49,755,521 |
| Interest bearing | | |
| NOW | 23,774,411 | 21,581,697 |
| Savings | 58,906,759 | 69,766,296 |