

PATRIOT NATIONAL BANCORP INC  
Form SB-2  
April 25, 2005

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As filed with the Securities and Exchange Commission on April 25, 2005

Registration No. 333-

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## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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### Form SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

### Patriot National Bancorp, Inc.

*(Name of Small Business Issuer in Its Charter)*

**Connecticut**

*(State or Other Jurisdiction  
of Incorporation or Organization)*

**6021**

*(Primary Standard Industrial  
Classification Code Number)*

**900 Bedford Street**

**Stamford, Connecticut 06901**

**(203) 324-7500**

**06-1559137**

*(I.R.S. Employer  
Identification Number)*

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

**Charles F. Howell**

*President*

**Robert F. O'Connell**

*Senior Executive Vice President and  
Chief Financial Officer*

**Patriot National Bancorp, Inc.**

**900 Bedford Street**

**Stamford, Connecticut 06901**

**(203) 324-7500**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

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*Approximate date of commencement of proposed sale to the public:*

As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

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**CALCULATION OF REGISTRATION FEE**

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<b>Title of each class of securities to be registered</b>	<b>Proposed maximum aggregate offering price(1)</b>	<b>Amount of registration fee</b>
Common Stock, \$2.00 par value per share	\$12,000,000	\$1,413

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(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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*The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.*

**Subject to Completion dated April 25, 2005**

**PRELIMINARY PROSPECTUS**

**Shares of Common Stock (Maximum)  
Shares of Common Stock (Minimum)  
(par value \$2.00 per share)**

**PATRIOT NATIONAL BANCORP, INC.**

We are distributing non-transferable rights to subscribe for and purchase up to \$ ( shares) of our common stock to persons who owned shares of our common stock as of the close of business on the record date, , 2005. You will receive the right to subscribe for one share of common stock, at a subscription price of \$ , for each shares of common stock that you owned on , 2005. If you exercise all of your rights, you may also have the opportunity to purchase additional shares of common stock at the same purchase price.

You will be able to exercise your rights to purchase shares of common stock only during a limited period. If you do not exercise your rights before 5:00 p.m., Eastern Time, on , 2005, the rights will expire. We may decide to extend the rights offering, at our discretion, for up to 20 calendar days.

We intend to enter into agreements with certain institutions and high net worth individuals ("standby purchasers"), pursuant to which such standby purchasers will agree to purchase up to \$ ( shares) of our common stock, if such shares are available following the completion of this offering. Such standby purchasers are expected to require that we agree to sell and guarantee the availability of at least \$ ( shares) of our common stock to such standby purchasers following the completion of this offering.

Our common stock is listed on the NASDAQ SmallCap Market under the symbol "PNBK." On April 22, 2005, the last sale price of our common stock as reported on the NASDAQ SmallCap Market was \$18.54 per share.

**Investing in our common stock involves risks. See "Risk Factors" beginning on page 11.**

**Neither the Securities and Exchange Commission nor any state regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The securities offered hereby are not savings accounts, deposits or other debt obligations of a bank or savings association and are not insured by the Federal Deposit Insurance Corporation, the FDIC, or any governmental agency or otherwise.**

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)
<b>Minimum(3):</b>			
Price Per Share	\$	\$	\$
Total	\$	\$	\$
<b>Maximum(4):</b>			
Price Per Share	\$	\$	\$
Total	\$	\$	\$

(1)

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As compensation for its services, we have agreed to pay Sandler O'Neill & Partners, L.P. ("Sandler O'Neill") upon completion of the offering a fee of 1% of the aggregate purchase price of the shares of our common stock sold in the offering pursuant to the exercise of rights by any of our directors, officers or employees; a fee of 3% of the aggregate purchase price of the shares of our common stock sold in the offering pursuant to the exercise of the rights by other persons; and a fee of 6.5% of the aggregate value of common stock committed to be purchased by the standby purchasers, except we have agreed to pay a fee of 4.25% of the aggregate value of the common stock committed to be purchased by not more than one standby purchaser to be identified and selected by us. We have also agreed to reimburse Sandler O'Neill for its reasonable out-of-pocket expenses pertaining to its engagement, including legal fees, and have agreed to indemnify Sandler O'Neill against certain liabilities arising out of its engagement, including certain liabilities arising under the Securities Act of 1933, as amended.

(2) Before deducting expenses payable by us, estimated at \$ \_\_\_\_\_.

(3) The total minimum price to the public, underwriting discounts and commissions and total minimum proceeds to us assume the purchase of \_\_\_\_\_ shares as follows: \_\_\_\_\_ by our directors, officers and employees, \_\_\_\_\_ by other holders of rights and \_\_\_\_\_ by the standby purchasers.

(4) The total maximum price to the public, underwriting discounts and commissions and total maximum proceeds to us assume the purchase of \_\_\_\_\_ shares as follows: \_\_\_\_\_ by our directors, officers and employees, \_\_\_\_\_ by other holders of rights and \_\_\_\_\_ by the standby purchasers.

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### **Sandler O'Neill & Partners, L.P.**

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The date of this prospectus is \_\_\_\_\_, 2005.

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**Patriot National Bancorp**

**Branch Office Locations**



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You should rely only on the information contained in this prospectus. We have not, and Sandler O'Neill has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and Sandler O'Neill is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

## Prospectus Summary

*This summary highlights information contained elsewhere in this prospectus. It may not contain all the information that may be important to you. You should read the entire prospectus carefully before making an investment decision, especially the information presented under the heading "Risk Factors" and our Consolidated Financial Statements and the related notes included elsewhere in this prospectus.*

In this prospectus, we frequently use the terms "we," "our" and "us" to refer to Patriot National Bancorp, Inc. and our subsidiary, Patriot National Bank.

### ***Our Company***

#### *General*

We are the bank holding company for Patriot National Bank, the Bank, the largest publicly-held commercial bank headquartered in Fairfield County, Connecticut. We conduct our operations solely through the Bank. Both we and the Bank are headquartered at our main office in Stamford, Connecticut, approximately 40 miles east of New York City. The Bank began operations in 1994 and was reorganized as our subsidiary in 1999. The Bank has nine branch office locations serving customers located in the Fairfield County communities of Stamford, Greenwich, Old Greenwich, Norwalk, Wilton and Darien, and has received approval to open an additional branch in Southport, Connecticut. In addition, our Residential Lending Group has mortgage origination offices in Stamford and Melville (Long Island), New York.

We offer a broad range of commercial and consumer banking services with an emphasis on serving the needs of small and medium-sized businesses, commercial real estate investors and builders, professionals such as accountants and attorneys, as well as individuals. We offer commercial real estate and construction loans to area businesses and developers, commercial loans to area businesses, as well as one- to four-family residential mortgage loans, home improvement loans and home equity lines of credit to individuals. We offer consumer and commercial deposit accounts such as checking accounts, insured money market accounts, time certificates of deposit, and savings accounts. As of December 31, 2004, on a consolidated basis, we had total assets of \$405.0 million, net loans of \$263.9 million, total deposits of \$367.0 million and total shareholders' equity of \$19.8 million.

#### *Financial Highlights*

We have achieved significant growth in assets, loans, deposits and net income over the past five years. From December 31, 1999 through December 31, 2004, we have grown:

Total assets from \$177.2 million to \$405.0 million, reflecting an 18.0% compounded annual growth rate;

Net loans from \$107.8 million to \$263.9 million, reflecting a 19.6% compounded annual growth rate;

Total deposits from \$162.7 million to \$367.0 million, reflecting a 17.7% compounded annual growth rate;

Non-interest bearing deposits from \$12.6 million to \$42.6 million, reflecting a 27.6% compounded annual growth rate; and

Net income from \$349,000 for the year ended December 31, 1999 to \$926,000 for the year ended December 31, 2004.

During this period of growth, we have emphasized the importance of a disciplined credit culture and have been successful in maintaining strong asset quality. We had approximately \$42,000 of net loan charge-offs from December 31, 1999 to December 31, 2004, none of which related to our residential



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construction portfolio, and we had an aggregate of \$4.0 million of non-performing loans at December 31, 2004, which constituted 1.0% of total assets at such date. Our non-performing loans included three loans totaling \$3.7 million that are well collateralized and in the process of collection, two of which totaling \$3.5 million are current as to principal and interest. The Bank is considered a well-capitalized institution under applicable regulations, with a total risk-based capital ratio of 10.50% and a Tier 1 risk-based capital ratio of 9.29% at December 31, 2004.

### *Market Overview*

Our primary market area encompasses the southwestern Fairfield County communities where our branches are located. We also serve adjoining areas of Fairfield County and neighboring Westchester County, New York and, through our Residential Lending Group, Long Island, New York. Our market is located within the greater New York City metropolitan area, and is highly dependent on the economy of New York City. In 2004, the population of Fairfield County was approximately 906,000 people, which represents approximately 25% of the population of Connecticut. From 2004 through 2009, the population of Fairfield County is expected to increase by approximately 3.2%. The median household income in 2004 was over \$73,000, more than 50% higher than the median household income for the United States. In October 2004, unemployment in Fairfield County was reported to be 3.5%, compared to 4.2% for Connecticut and 5.1% for the United States.

As of December 31, 2004, the Bank had \$367.0 million of total deposits. As of June 30, 2004, the most recent date such information is available, the Bank had approximately 1.32% of the total deposits within Fairfield County. Consequently, there are substantial opportunities for the Bank to continue to grow its market share of deposits within its primary market area.

Fairfield County is home to a large number of Fortune 500 corporate headquarters, including Pitney Bowes, Clairol, Xerox, GE Capital, Champion-International and Time Warner Cable, as well as the U.S. headquarters of several international companies, including UBS and Diageo-Guinness. Many senior executives and employees of these and other businesses based in New York City reside within our market area. Our market is also characterized by a large number of small and medium-sized businesses that have developed to meet the needs of the community. We are focused on serving these individuals and small to medium-size businesses.

### *Growth Strategy*

Our goal is to continue to be the largest, independently owned commercial bank headquartered in Fairfield County. Our focus is on growing our core deposit base which will be utilized to fund our loan growth. We plan to attract new customers by providing a targeted line of commercial and consumer financial services while maintaining our reputation for excellent service, professionalism and integrity. We believe that the impact of recent and ongoing bank consolidations in Fairfield County provides a significant opportunity for us to continue to grow our community-focused banking business. Our strategy for achieving these objectives includes the following:

*Expand our geographical footprint.* We intend to continue to establish new branches in Fairfield County. As a result of the financial institution consolidation which has occurred within Connecticut, our market area includes several unused bank buildings and facilities, the availability of which has provided us in the past, and may provide us in the future, with an efficient and cost-effective alternative to building new facilities. Our management is very familiar with our market area, and regularly evaluates opportunities to lease existing facilities by reviewing market demographics with a view towards deposit growth, geographic location and customer accessibility, proximity to competitors, renovation costs, and suitability. We also intend to potentially expand into Westchester County and surrounding counties in New York, although under current law this would require us to establish a de novo bank or acquire a branch of an existing bank. While we have no current acquisition arrangements, we intend to consider

potential acquisition opportunities as they arise. Except for the acquisition of our Residential Lending Group, we have not historically supplemented our growth through acquisitions.

*Increase our deposit balances.* Our focus is on increasing our core deposits, which consist of savings accounts, money market deposit accounts, non-interest-bearing demand accounts and certificates of deposit in amounts less than \$100,000. We have grown our core deposits from \$127.9 million at December 31, 1999 to \$295.7 million at December 31, 2004 with a weighted average interest rate of 1.84% as of December 31, 2004. We intend to continue to increase our core deposits by attracting new customers who seek a high level of personalized banking services. We believe that our personalized service and our role in providing commercial real estate and construction loans in the local business community distinguishes us from most of our competitors, many of which are larger banks and other institutions with a regional or national focus.

*Attract and retain experienced lending professionals.* Our senior management team includes individuals with extensive experience and business contacts in the Fairfield County area. We seek to hire additional experienced commercial lenders with strong business relationships and knowledge of our market area in order to expand and enhance our current commercial banking and loan operations. We also consider the availability of experienced lenders in connection with our plans to establish new branch locations within our market area.

*Increase the number and size of our loans.* We seek to expand and attract new lending relationships, particularly residential construction, commercial real estate and, to a lesser extent, commercial business loans. Additional capital will allow us to lend higher amounts and to better meet the lending needs of our borrowers. As we grow, our goal is to increase our loan-to-deposit ratio by shifting the mix of earning assets to a greater percentage of higher yielding loans.

*Offer new products and services.* We plan to increase the banking products and financial services we offer in order to diversify our revenue base, increase our fee income, and strengthen our customer relationships. We seek to exploit opportunities to cross-sell these additional services to our existing customers and to attract new customers. In 1999, we acquired a residential mortgage brokerage company which conducted business in Connecticut, New York and New Jersey. This business is now conducted through a division of the Bank. Our residential mortgage brokerage business has generated significant non-interest (fee) income in each year following the acquisition, although the division's performance in 2004 was adversely affected by increases in market rates of interest which resulted in a significant decrease in the volume of refinance transactions.

#### *Experienced Management Team*

Our growth since 1999 is primarily due to our hiring of an experienced team of banking executives, all of whom have considerable experience in community banking in Fairfield County, Connecticut. Our management team is led by Angelo De Caro, our Chairman and Chief Executive Officer, who is a former partner and senior financial officer of Goldman Sachs & Co. Mr. De Caro served on the executive committees of Goldman Sachs Swiss Private Bank and Goldman Sachs Trust Services. Mr. De Caro has extensive experience in financial management and risk analysis and his responsibilities at Goldman Sachs included auditing, tax and financial controls. He has focused us on our strategic growth objectives with respect to both our loan portfolio and core deposits. Our President, and the Chief Executive Officer of the Bank, Charles F. Howell, has over 30 years of banking experience in Fairfield County, including prior service as the president of a bank and as the chief operating officer and chief lending officer at another bank. Our Senior Executive Vice President and Chief Financial Officer, Robert F. O'Connell, has experience as a CPA in a major national accounting firm and has served as a senior executive officer and CFO of four other banks over a 28-year period. He also has responsibility for operations, retail banking and human resources. Our Chief Operating Officer, Philip W. Wolford, has 31 years of banking experience and has been a senior executive officer of three banks. Mr. Wolford

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served as the controller of a large New York City savings bank and has had responsibility for operations, information technology, compliance, retail banking and loan operations. Our other four senior officers have over 100 years of combined banking and mortgage banking experience. We have also hired several senior commercial lenders with considerable experience and business relationships from other banks and financial institutions in our market area, and we expect to hire additional experienced lenders as we continue to grow.

### *Office and Other Information*

Our principal executive offices are located at 900 Bedford Street, Stamford, Connecticut 06901, and our telephone number is (203) 324-7500. Our Internet address is [www.pnbk.com](http://www.pnbk.com). The information contained on our web site is not part of this prospectus.

*The Rights Offering*

*Common Stock Offered* We are offering a minimum of \_\_\_\_\_ shares and a maximum of \_\_\_\_\_ shares of our common stock in the offering. We are offering our shareholders as of \_\_\_\_\_, 2005, the record date, the right to subscribe for and purchase up to \_\_\_\_\_ shares of our common stock pursuant to the exercise of subscription rights. Each subscription right includes a basic subscription right and an oversubscription privilege for shareholders who exercise their basic subscription right in full, subject to availability and proration by us under certain circumstances. In this prospectus we refer to your basic subscription right as the "Basic Subscription Right" and to your oversubscription privilege as the "Oversubscription Privilege." In addition, in the event that there is not a sufficient number of shares of common stock remaining upon completion of the offering to satisfy the minimum number of shares we are required to sell to the standby purchasers, we will issue up to an additional \_\_\_\_\_ shares of common stock to the standby purchasers. See "The Rights Offering."

*Basic Subscription Right* Each of our shareholders will receive one Basic Subscription Right for every \_\_\_\_\_ shares of common stock held on the record date. We will not issue fractional rights; the number of Basic Subscription Rights we offer to each shareholder will be rounded up or down to the nearest whole number.

*Oversubscription Privilege* If you fully exercise your Basic Subscription Rights, subject to certain limits, you may also subscribe for up to two additional shares of common stock that other shareholders do not purchase for each Basic Subscription Right you hold. Shares of common stock available for purchase pursuant to the Oversubscription Privilege will be prorated if the number of oversubscribed shares exceeds the number of shares of common stock available. We will prorate in proportion to the number of shares of common stock each holder has subscribed for pursuant to the Basic Subscription Rights. The total number of shares that a shareholder may purchase in the offering as a result of the exercise of the Oversubscription Privilege (including shares purchased pursuant to the Basic Subscription Right) is limited to three times the number of shares purchased by such shareholder's exercise of the Basic Subscription Right.

*Record Date* \_\_\_\_\_, 2005.

*Subscription Price* \$ \_\_\_\_\_ per share.

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*Common Stock to be Outstanding after the Offering* 2,489,391 shares of our common stock were outstanding as of the record date. A total of        shares will be outstanding if we sell the minimum shares available in this offering and a total of        shares will be outstanding if we sell the maximum shares available in this offering. You may experience substantial dilution in your equity ownership interest and voting power if you do not exercise your Basic Subscription Right or if additional shares are issued to the standby purchasers. See "Risk Factors Risks Related to the Offering."

*Expiration Time* 5:00 p.m., Eastern Time, on        , 2005, unless we extend the expiration date for up to [20] calendar days (but no later than 5:00 p.m., Eastern Time, on        , 2005). No one may exercise rights after the expiration time.

*Non-transferability of Rights* You may not sell or otherwise transfer any of your Basic Subscription Rights or your Oversubscription Privilege.

*Regulatory Limitation* We will not be required to issue common stock to any rights holder pursuant to the exercise of the Basic Subscription Right or the Oversubscription Privilege or any standby purchaser who, in our opinion, could be required to obtain prior clearance or approval from, or submit a notice to, any federal or state bank regulatory authority to acquire, own or control such shares if, at the expiration time for the exercise of rights, such clearance or approval has not been obtained and/or any required waiting period has not expired. If we elect not to issue shares of common stock in such case, such shares will become available to satisfy oversubscriptions by other rights holders and will be available to the standby purchasers. See "The Rights Offering Regulatory Limitation."

*Subscription Agent* Registrar and Transfer Company

*Information Agent* Registrar and Transfer Company

*Financial Advisor* We have entered into an agreement with Sandler O'Neill & Partners, L.P., pursuant to which Sandler O'Neill is acting as our financial advisor in connection with the offering. We have agreed to pay certain fees to, and expenses of, Sandler O'Neill for its services in the offering. See "The Rights Offering Financial Advisor."

*Procedure for Subscribing* To exercise your subscription rights (including both the Basic Subscription Right and the Oversubscription Privilege), you should complete the subscription rights certificate and forward it along with payment in full for all of the shares for which you are subscribing to the subscription agent. You are responsible for ensuring that your subscription rights certificate reaches the subscription agent before the expiration time. If you plan to mail the subscription rights certificate, we recommend that you use insured, registered mail. See "The Rights Offering Exercise of Subscription Rights."

*Persons Holding Shares, or Wishing to Exercise Rights, Through Others* If you hold shares of common stock through a broker, dealer, commercial bank, trust company or other nominee, you should contact the institution and inform them if you wish to participate in this offering. See "The Rights Offering Exercise of Subscription Rights Shares Held by or for Others."

*No Revocation* You may not revoke your subscription after the subscription agent receives your subscription rights certificate. Rights not exercised prior to the expiration time will expire.

*Minimum Offering* The offering is conditioned upon the receipt of minimum offering proceeds of \$ . We believe, however, that this condition will be satisfied as a result of the commitments made by the standby purchasers under the standby purchase agreements. The maximum amount committed to the standby purchasers is referred to as the "Maximum Standby Purchase Commitment," and the minimum we will be required to sell to the standby purchasers is referred to as the "Minimum Standby Purchase Obligation." See "Standby Purchase Agreements."

*Standby Purchase Agreements* We anticipate that we will enter into standby purchase agreements pursuant to which the standby purchasers will severally agree to acquire from us at the \$ per share subscription price up to shares remaining after exercise of the Basic Subscription Right and Oversubscription Privilege by all shareholders of record, subject, in each case, to a maximum standby purchase commitment and certain conditions. It is anticipated that each standby purchase agreement will require that we sell a minimum number of shares to the related standby purchaser if sufficient shares are not available after issuance of all underlying shares subscribed for by the exercise of the Basic Subscription Right and the Oversubscription Privilege. In such case, we will issue in the aggregate up to additional shares to satisfy the Minimum Standby Purchase Obligation, but in no event will this result in shares being issued in excess of the maximum number of shares offered hereby.

*Our Right to Terminate the Offering* We reserve the right to terminate the offering at any time until it has expired and for any reason. If we terminate the offering, we will have no obligation to you other than to return any payment we have received from you, without interest.

*Delivery of Shares* Assuming we receive the minimum offering proceeds, we will send you certificates representing the shares of common stock you purchased as soon as practicable after , 2005, whether you exercise your rights immediately before that date or earlier. If you hold your common stock through The Depository Trust Company (known as DTC), or arrange for delivery and payment through DTC, DTC will credit the appropriate account for the shares that you purchase.

*Purchase Intentions of our Directors and Executive Officers*

Our directors and executive officers as a group (14 persons) have indicated their intention to exercise rights to purchase, in the aggregate, approximately \$1.7 million of our common stock in the offering. These indications of intent are based upon each director's and officer's evaluation of his or her own financial and other circumstances. While Mr. De Caro, our Chairman of the Board, beneficially owns approximately 27.4% of our common stock, and thereby holds rights to purchase up to approximately            shares of common stock in this offering, he has indicated his intention to purchase only \$1.0 million of our common stock in this offering, or approximately            shares of our common stock assuming the maximum offering size, in order to permit a broader diversification of our shareholder base. Upon their acquisition of such shares, our directors and executive officers, as a group, will beneficially own            shares, or a minimum of            % and a maximum of            % of the outstanding common stock after completion of the offering. Mr. De Caro will beneficially own            shares, or a minimum of            % and a maximum of            % of the outstanding common stock after completion of the offering.

*Listing*

We are currently listed on the NASDAQ SmallCap Market. We intend to apply to have the shares offered hereby also approved for listing on the NASDAQ SmallCap Market.

*No Board or Financial Advisor Recommendations*

An investment in our common stock must be made pursuant to your evaluation of your best interests. Accordingly, neither our board of directors nor Sandler O'Neill makes any recommendation to you regarding whether you should exercise your rights or purchase our common stock.

*Use of Proceeds*

We currently intend to contribute all of the net proceeds of this offering to the Bank. The Bank intends to utilize the proceeds to continue its branch expansion program and for general corporate purposes. We believe that by continuing to grow the Bank, we will be able to create long-term value to our shareholders. The net proceeds will be invested initially in primarily short-term investments.

*Risk Factors*

Investing in our common stock involves risks, including the risks that are described on pages 11 to 17 of this prospectus.

*Questions*

You should direct any questions concerning the procedure for subscribing to the information agent, Registrar and Transfer Company. You may phone the information agent at (800) 866-1340, or contact the Corporate Relations Department of the Information Agent at the website maintained by the Information Agent at [www.rtc.com/corp\\_contact.asp](http://www.rtc.com/corp_contact.asp).

**Condensed Summary Selected Consolidated Financial and Other Data**

We have derived the summary selected consolidated financial and other data for the years ended December 31, 2004 and 2003 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the summary selected consolidated financial and other data for the years ended December 31, 2002, 2001 and 2000 from our audited consolidated financial statements that are not included in this prospectus. You should read the selected consolidated financial information below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes related to those financial statements included elsewhere in this prospectus.

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<b>(dollars in thousands, except share and per share data)</b>				
<b>Selected Operating Data:</b>					
Interest and dividend income	\$ 18,678	\$ 15,215	\$ 12,605	\$ 13,723	\$ 14,694
Interest expense	7,009	5,588	4,765	6,867	8,018
Net interest income	11,670	9,626	7,840	6,856	6,677
Provision for loan losses	556	563	468	250	326
Noninterest income:					
Mortgage-related fees(1)	2,020	3,963	3,618	3,320	2,538
Securities gains and losses		308	(26)		
Other non-interest income(2)	682	543	522	190	147
Total noninterest income	2,702	4,814	4,114	3,510	2,685
Noninterest expense	12,257	11,659	9,813	8,676	7,693
Net income	926	1,341	1,052	876	767
<b>Per Share Data:</b>					
Basic income per share	\$ 0.38	\$ 0.56	\$ 0.44	\$ 0.37	\$ 0.34
Diluted income per share	0.37	0.55	0.43	0.36	0.33
Dividends per share	0.135	0.115	0.095	0.060	
Weighted average shares outstanding Basic	2,449,679	2,400,879	2,400,525	2,400,488	2,281,993
Weighted average shares outstanding Diluted	2,502,691	2,443,236	2,427,314	2,426,501	2,317,078
Common shares outstanding at end of period	2,486,391	2,408,607	2,400,525	2,400,525	2,400,375
<b>Balance Sheet Data:</b>					
Cash and due from banks	\$ 6,670	\$ 4,024	\$ 5,386	\$ 7,544	\$ 3,656
Federal funds sold	37,500	15,000	3,000	12,700	29,500
Short term investments	11,460	10,431	3,349	6,789	
Investment securities	78,259	92,331	61,721	35,817	34,074
Loans, net	263,875	214,421	170,795	135,680	126,411
Total assets	405,047	342,469	248,497	202,569	197,628
Total deposits	367,005	289,992	217,911	183,264	179,666
Total borrowings	16,248	31,301	10,293	839	945
Total shareholders' equity	19,756	18,780	18,545	17,406	16,427



**Selected  
Financial  
Ratios and  
Other Data:**

Return on average assets	0.26%	0.46%	0.47%	0.46%	0.42%
Return on average equity	4.74	7.09	5.82	5.10	5.20
Average equity to average assets	5.48	6.50	8.13	9.05	8.12
Interest rate spread(3)	3.02	3.10	3.31	3.11	3.08
Net interest margin(4)	3.35	3.41	3.67	3.75	3.80
Average interest-earning assets to average interest-bearing liabilities	116.54	115.88	116.22	117.16	115.68
Non-interest expense to average assets	3.52	4.13	4.59	4.75	4.37
Efficiency ratio(5)	85.28	80.74	82.09	83.69	82.18
Number of full-service customer facilities	9	7	4	4	3

**Regulatory  
Capital  
Ratios:(6)**

Tier I capital to adjusted total assets	6.79%	7.51%	6.99%	8.15%	7.86%
Tier I capital to total risk-weighted assets	9.04	10.00	9.13	9.61	9.97
Total capital to total risk-weighted assets	10.70	11.87	10.39	10.74	11.04

**Asset Quality  
Ratios:**

Nonperforming loans(7) as a percent of gross loans	1.51%	0.14%	0.79%	2.14%	1.77%
Nonperforming assets as a percent of total assets	1.00	0.09	0.56	1.46	1.15
	1.31	1.35	1.37	1.38	1.28

Allowance for  
loan losses as a  
percent of gross  
loans

Allowance for  
loan losses as a  
percent of total  
nonperforming  
loans

86.12	931.43	172.76	64.12	72.59
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- (1) Represents the revenue generated by our mortgage broker segment. See note 18 to our consolidated financial statements.
- (2) Reflects fees and service charges on deposit accounts, loan fee income and other miscellaneous income generated by our commercial banking segment.
- (3) Represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Represents net interest income as a percent of average interest-earning assets.
- (5) Represents non-interest expense divided by the sum of net interest income and noninterest income.
- (6) See note 14 to our consolidated financial statements for additional information about our regulatory capital positions and requirements and the regulatory capital positions and requirements of the Bank.
- (7) Consists of loans past due 90 days or more and still accruing, and loans placed on non-accrual status.

## Risk Factors

*Investing in our common stock involves a high degree of risk. Before you invest in our common stock, you should understand and carefully consider the risks below, as well as all of the other information contained in this prospectus and our financial statements and the related notes included elsewhere in this prospectus. Any of these risks could have a material adverse effect on our business, financial condition, results of operations and the trading price of our common stock, and you may lose all or part of your investment.*

*The shares of common stock offered through this prospectus are not savings accounts, deposits or other obligations of a bank or savings association and are not insured by the FDIC or any other governmental agency.*

### ***Risks Related to the Offering***

#### **You may not revoke your exercise of rights; we may terminate the offering.**

Once you have exercised your subscription rights, you may not revoke your exercise. We may terminate this offering at our discretion, including without limitation if we fail to sell at least \_\_\_\_\_ shares and raise at least \$ \_\_\_\_\_,000,000 in the offering. However, we believe that we will raise at least such amount due to our arrangements with the standby purchasers. If we terminate this offering, neither we nor the subscription agent will have any obligation to you with respect to the rights except to return any payment received by the subscription agent, without interest or penalty.

#### **If you do not participate in this rights offering or do not exercise all of your subscription rights, you may suffer dilution of your percentage ownership of our common stock.**

This rights offering is designed to enable us to raise capital while allowing all shareholders on the record date to avoid or limit dilution of their ownership interest in the Company. To the extent that you do not exercise your subscription rights and shares are purchased by other shareholders in the rights offering, your proportionate voting interest will be reduced, and the percentage that your original shares represent of our expanded equity after exercise of the subscription rights will be disproportionately diluted.

#### **Even if you exercise your Basic Subscription Right, you may experience dilution if we issue additional shares to the standby purchasers.**

You may experience substantial dilution in your voting rights and in your proportional interest in us because the standby purchasers will be able to purchase additional shares beyond the underlying shares even if you exercise your Basic Subscription Right. We will be obligated to sell such shares to the standby purchasers because the standby purchasers will have a right to purchase the Minimum Standby Purchase Obligation even if we issue all of the underlying shares subscribed for by the exercise of the Basic Subscription Right and Oversubscription Privilege.

#### **We have broad discretion in the use of proceeds of this offering.**

We have not designated the anticipated net proceeds of this offering for specific uses. Accordingly, our management will have considerable discretion in the application of the net proceeds of this offering and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. See "Use of Proceeds."

**We set the exercise price for the subscription rights without regard to net worth, earnings or any other similar value, and you should not consider this price to be an indication of the actual value of our common stock.**

We set the \$ subscription price for the shares of our common stock which may be purchased by exercising the subscription rights at a price less than the market price on the date on which we determined to proceed with this offering. We selected this price based on a number of factors, including the desire to encourage shareholder participation in this offering. You should not, however, consider this price to be an indication of the actual value of our common stock and it was not based on our net worth, earnings or any other established criteria of value. This price may not be indicative of the price that will prevail in the public market after the offering. In particular, the market price of our common stock may decline below \$ . See "The Rights Offering Determination of Subscription Price."

***Risks Related to our Business***

**We intend to continue our emphasis on growth over earnings for the foreseeable future.**

We have actively sought growth of our institution in recent years, by opening additional branches, initiating internal growth programs, and completing one acquisition of a mortgage brokerage company. We may not be able to sustain our historical rate of growth or may not even be able to continue to grow at all. Various factors, such as economic conditions and competition, may impede or prohibit us from opening new branches. In addition, we may not be able to obtain the financing necessary to fund additional growth and we may not be able to find suitable candidates for acquisition.

Sustaining our growth has placed significant demands on our management as well as on our administrative, operational and financial resources. For us to continue to manage our growth, we must continue to:

attract and retain qualified management and experienced bankers;

find suitable markets for expansion;

attract funding to support additional growth;

maintain our asset quality;

maintain adequate regulatory capital; and

maintain adequate controls.

Although we believe that our earnings will increase as we build our franchise, earnings are expected to continue to be adversely affected by the costs of opening new branches and the time necessary to build a customer base at each new branch.

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