

PATRIOT NATIONAL BANCORP INC
Form SB-2/A
August 02, 2005

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As filed with the Securities and Exchange Commission on August 2, 2005

Registration No. 333-124312

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 3
to

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.

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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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price	Amount of registration fee(1)
Common Stock, \$2.00 par value per share	\$12,000,011	\$1,413.01

- (1) The Registrant paid a filing fee of \$1,413.00 in connection with the registration of an estimated aggregate offering price of \$12,000,000 with the initial filing of this registration statement on Form SB-2 on April 25, 2005. An additional filing fee of \$0.01 is being paid in connection with the filing of this Amendment No. 3 to the registration statement on Form SB-2 to register an additional \$11.00 of aggregate offering price of the securities to be registered.

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.

PROSPECTUS

705,883 Shares of Common Stock (Maximum)
529,412 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 \$7,053,283 (414,899 shares) of our common stock to persons who owned shares of our common stock as of the close of business on the record date, August 1, 2005. You will receive the right to subscribe for one share of common stock, at a subscription price of \$17.00, for each six shares of common stock that you owned on August 1, 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 September 9, 2005, the rights will expire. We may decide to extend the rights offering, at our discretion, for up to 20 calendar days.

We have entered into agreements with certain high net worth individuals ("standby purchasers"), pursuant to which such standby purchasers have agreed to purchase up to \$9,000,004 (529,412 shares) of our common stock, if such shares are available following the completion of this offering. We have agreed to sell and guarantee the availability of at least \$4,946,728 (290,984 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 August 1, 2005, the last sale price of our common stock as reported on the NASDAQ SmallCap Market was \$19.25 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 10.

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)
Minimum(3):			
Price Per Share	\$ 17.00	\$ 0.62	\$ 16.38
Total	\$ 9,000,004	\$ 327,982.79	\$ 8,672,021.21
Maximum(4):			
Price Per Share	\$ 17.00	\$ 0.55	\$ 16.45
Total	\$ 12,000,011	\$ 388,285.27	\$ 11,611,725.73

(1) 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 4.25% of the aggregate value of common stock committed to be purchased by the standby purchasers. We have 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)

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Before deducting expenses payable by us, estimated at \$725,000.

- (3) The total minimum price to the public, underwriting discounts and commissions and total minimum proceeds to us assume the purchase of 529,412 shares as follows: 98,674 by our directors, officers and employees, none by other holders of rights and 430,738 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 705,883 shares as follows: 98,674 by our directors, officers and employees, 316,225 by other holders of rights and 290,984 by the standby purchasers.

Sandler O'Neill & Partners, L.P.

The date of this prospectus is August 2, 2005.

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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.

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 ten branch office locations serving customers located in the Fairfield County communities of Stamford, Greenwich, Old Greenwich, Norwalk, Wilton, Darien and Southport. In addition, our Residential Lending Group has mortgage origination offices in Stamford and Melville (Long Island), New York.

The Bank offers 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. The Bank offers 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. The Bank offers consumer and commercial deposit accounts such as checking accounts, insured money market accounts, time certificates of deposit, and savings accounts. As of March 31, 2005, on a consolidated basis, we had total assets of \$413.7 million, net loans of \$293.5 million, total deposits of \$366.2 million and total shareholders' equity of \$19.4 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 March 31, 2005, we have grown:

Total assets from \$177.2 million to \$413.7 million;

Net loans from \$107.8 million to \$293.5 million;

Total deposits from \$162.7 million to \$366.2 million; and

Non-interest bearing deposits from \$12.6 million to \$39.4 million.

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 have had minimal net loan charge-offs since 1999. We had an aggregate of \$5.2 million of non-performing loans at March 31, 2005, which constituted 1.26% of total assets at such date. Our non-performing loans as of such date included three loans totaling \$3.6 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 10.35% and a Tier 1 risk-based capital ratio of 9.10% at March 31, 2005.

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

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of New York City. In 2004, the population of Fairfield County was approximately 903,000 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 March 31, 2005, the Bank had \$366.2 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 \$294.0 million at March 31, 2005 with a weighted average interest rate of 1.90% as of March 31, 2005. 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 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. The information contained on our web site is not part of this prospectus.

The Rights Offering

<i>Common Stock Offered</i>	We are offering a minimum of 529,412 shares and a maximum of 705,883 shares of our common stock in the offering. We are offering our shareholders as of August 1, 2005, the record date, the right to subscribe for and purchase up to 414,899 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 290,984 shares of common stock to the standby purchasers. See "The Rights Offering."
<i>Basic Subscription Right</i>	Each of our shareholders will receive one Basic Subscription Right for every six 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.
<i>Oversubscription Privilege</i>	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.
<i>Record Date</i>	August 1, 2005.
<i>Subscription Price</i>	\$17.00 per share.

<i>Common Stock to be Outstanding after the Offering</i>	2,489,391 shares of our common stock were outstanding as of the record date. A total of 3,018,803 shares will be outstanding if we sell the minimum shares available in this offering and a total of 3,195,274 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."
<i>Expiration Time</i>	5:00 p.m., Eastern Time, on September 9, 2005, unless we extend the expiration date for up to 20 calendar days (but no later than 5:00 p.m., Eastern Time, on September 29, 2005). No one may exercise rights after the expiration time.
<i>Non-transferability of Rights</i>	You may not sell or otherwise transfer any of your Basic Subscription Rights or your Oversubscription Privilege.
<i>Regulatory Limitation</i>	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."
<i>Subscription Agent</i>	Registrar and Transfer Company
<i>Information Agent</i>	Registrar and Transfer Company
<i>Financial Advisor</i>	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."
<i>Procedure for Subscribing</i>	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 \$9,000,004. 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 have entered into standby purchase agreements pursuant to which the standby purchasers have severally agreed to acquire from us at the \$17.00 per share subscription price up to 529,412 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. Each standby purchase agreement requires 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 290,984 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 September 9, 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 (13 persons) have indicated their intention to exercise rights to purchase, in the aggregate, approximately \$1.68 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 113,666 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 58,823 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 1,027,391 shares, or a minimum of 32.2% and a maximum of 34.0% of the outstanding common stock after completion of the offering. Mr. De Caro will beneficially own 740,823 shares, or a minimum of 23.2% and a maximum of 24.5% 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 10 to 16 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.

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. The selected consolidated financial data as set forth below as of March 31, 2005 and 2004, and for the three months ended March 31, 2004 and March 31, 2005 have been derived from our unaudited financial statements which are included elsewhere in this prospectus. We have prepared the unaudited financial statements on a basis consistent with our audited annual financial statements. In our opinion, the unaudited financial statements include all normal recurring adjustments necessary for a fair presentation of our results of operations and financial condition for such periods. Our operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2005. 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.

	Three Months Ended March 31,		Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
(dollars in thousands, except share and per share data)							
Selected Operating Data:							
Interest and dividend income	\$ 5,594	\$ 4,308	\$ 18,678	\$ 15,215	\$ 12,605	\$ 13,723	\$ 14,694
Interest expense	2,180	1,640	7,009	5,588	4,765	6,867	8,018
Net interest income	3,415	2,668	11,670	9,626	7,840	6,856	6,677
Provision for loan losses	260	160	556	563	468	250	326
Noninterest income:							
Mortgage-related fees(1)	586	591	2,020	3,963	3,618	3,320	2,538
Securities gains and losses				308	(26)		
Other non-interest income(2)	125	161	682	543	522	190	147
Total noninterest income	711	752	2,702	4,814	4,114	3,510	2,685
Noninterest expense	3,383	2,924	12,257	11,659	9,813	8,676	7,693
Net income	287	196	926	1,341	1,052	876	767

Per Share Data:

Basic income per share	\$ 0.12	\$ 0.08	\$ 0.38	\$ 0.56	\$ 0.44	\$ 0.37	\$ 0.34
Diluted income per share	0.11	0.08	0.37	0.55	0.43	0.36	0.33
Dividends per share	0.035	0.030	0.135	0.115	0.095	0.060	
Weighted average shares outstanding Basic	2,487,091	2,411,743	2,449,679	2,400,879	2,400,525	2,400,488	2,281,993
Weighted average shares outstanding Diluted	2,535,832	2,489,871	2,502,691	2,443,236	2,427,314	2,426,501	2,317,078
Common shares outstanding at end of period	2,489,391	2,420,274	2,486,391	2,408,607	2,400,525	2,400,525	2,400,375

As of December 31,

March 31, 2005	2004	2003	2002	2001	2000
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Balance Sheet Data:

Cash and due from banks	\$ 6,193	\$ 6,670	\$ 4,024	\$ 5,386	\$ 7,544	\$ 3,656
Federal funds sold	13,000	37,500	15,000	3,000	12,700	29,500
Short term investments	67	11,460	10,431	3,349	6,789	
Investment securities	92,902	78,259	92,331	61,721	35,817	34,074
Loans, net	293,528	263,875	214,421	170,795	135,680	126,411
Total assets	413,665	405,047	342,469	248,497	202,569	197,628
Total deposits	366,186	367,005	289,992	217,911	183,264	179,666
Total borrowings	26,248	16,248	31,301	10,293	839	945
Total shareholders' equity	19,450	19,756	18,780	18,545	17,406	16,427

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	At or for the Three Months Ended March 31,		At or for the Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000

(dollars in thousands, except share and per share data)

Selected Financial Ratios and Other Data(3):

Return on average assets	0.28%	0.23%	0.26%	0.46%	0.47%	0.46%	0.42%
Return on average equity	5.73	4.08	4.74	7.09	5.82	5.10	5.20
Average equity to average assets	4.92	5.63	5.48	6.50	8.13	9.05	8.12
Interest rate spread(4)	3.06	2.89	3.02	3.10	3.31	3.11	3.08
Net interest margin(5)	3.43	3.19	3.35	3.41	3.67	3.75	3.80
Average interest-earning assets to average interest-bearing liabilities	116.43	115.47	116.54	115.88	116.22	117.16	115.68
Non-interest expense to average assets	3.32	3.42	3.52	4.13	4.59	4.75	4.37
Efficiency ratio(6)	82.01	85.52	85.28	80.74	82.09	83.69	82.18
Number of full-service customer facilities	9	7	9	7	4	4	3

Regulatory Capital Ratios(7):

Tier I capital to adjusted total assets	6.45%	7.27%	6.79%	7.51%	6.99%	8.15%	7.86%
Tier I capital to total risk-weighted assets	8.87	9.85	9.04	10.00	9.13	9.61	9.97
Total capital to total risk-weighted assets	10.53	11.70	10.70	11.87	10.39	10.74	11.04

Asset Quality Ratios:

Nonperforming loans (8) as a percent of gross loans	1.75%	1.43%	1.51%	0.14%	0.79%	2.14%	1.77%
Nonperforming assets as a percent of total assets	1.26	0.92	1.00	0.09	0.56	1.46	1.15
Allowance for loan losses as a percent of gross loans	1.26	1.38	1.31	1.35	1.37	1.38	1.28
Allowance for loan losses as a percent of total nonperforming loans	71.93	96.84	86.12	931.43	172.76	64.12	72.59

- (1) Represents the revenue generated by our mortgage broker segment. See note 18 to our audited consolidated financial statements and note 8 to our unaudited 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) All ratios are annualized where appropriate.
- (4) Represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (5) Represents net interest income as a percent of average interest-earning assets.
- (6) Represents non-interest expense divided by the sum of net interest income and noninterest income.
- (7) See note 14 to our audited consolidated financial statements for additional information about our regulatory capital positions and requirements and the regulatory capital positions and requirements of the Bank.
- (8) 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 529,412 shares and raise at least \$9,000,004 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 amount to the registrant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of Item 4. There were no fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant that are reasonably related to the performance of the audit of their financial statements. (c) Tax Fees The aggregate fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant for tax compliance, tax advice and tax planning were \$1,290 for the fiscal year ended August 31, 2009 and \$0 for the fiscal year ended August 31, 2008. The services for which these fees were paid included tax compliance and advice. The aggregate fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant for tax compliance, tax advice and tax planning were \$6,000 for the fiscal year ended August 31, 2009 and \$0 for the fiscal year ended August 31, 2008. The services for which these fees were paid included tax compliance and advice. (d) All Other Fees The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant not reported in paragraphs (a)-(c) of Item 4 were \$0 for the fiscal year ended August 31, 2009 and \$324 for the fiscal year ended August 31, 2008. The services for which these fees were paid include review of materials provided to the fund Board in connection with the investment management contract renewal process. The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant not reported in paragraphs (a)-(c) of Item 4 were \$0 for the fiscal year ended August 31, 2009 and \$283,753 for the fiscal year ended August 31, 2008. The services for which these fees were paid include review of materials provided to the fund Board in connection with the investment management contract renewal process. (e) (1) The registrant's audit committee is directly responsible for approving the services to be provided by the auditors, including: (i) pre-approval of all audit and audit related services; (ii) pre-approval of all non-audit related services to be provided to the Fund by the auditors; (iii) pre-approval of all non-audit related services to be provided to the registrant by the auditors to the registrant's investment adviser or to any entity that controls, is controlled by or is under common control with the registrant's investment adviser and that provides ongoing services to the registrant where the non-audit services relate directly to the operations or financial reporting of the registrant; and (iv) establishment by the audit committee, if deemed necessary or appropriate, as an alternative to committee pre-approval of services to be provided by the auditors, as required by paragraphs (ii) and (iii) above, of policies and procedures to permit such services to be pre-approved by other means, such as through establishment of guidelines or by action of a designated member or members of the committee; provided the policies and procedures are detailed as to the particular service and the committee is informed of each service and such policies and procedures do not include delegation of audit committee responsibilities, as contemplated under the Securities Exchange Act of 1934, to management; subject, in the case of (ii) through (iv), to any waivers, exceptions or exemptions that may be available under applicable law or rules. (e) (2) None of the services provided to the registrant described in paragraphs (b)-(d) of Item 4 were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of regulation S-X. (f) No disclosures are required by this Item 4(f). (g) The aggregate non-audit fees paid to the principal accountant for services rendered by the principal accountant to the registrant and the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant were \$7,290 for the fiscal year ended August 31, 2009 and \$284,077 for the fiscal year ended August 31, 2008. (h) The registrant's audit committee of the board has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS. Members of the Audit Committee are: David W. Niemiec, Frank J. Crothers, Ann Torre Bates and Constantine D. Tseretopoulos. **ITEM 6. SCHEDULE OF INVESTMENTS.** N/A **ITEM 7.**

DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. The board of trustees of the Fund has delegated the authority to vote proxies related to the portfolio securities held by the Fund to the Fund's manager Templeton Asset Management Limited in accordance with the Proxy Voting Policies and Procedures (Policies) adopted by the manager. The manager has delegated its administrative duties with respect to the voting of proxies to the Proxy Group within Franklin Templeton Companies, LLC (Proxy Group), an affiliate and wholly owned subsidiary of Franklin Resources, Inc. All proxies received by the Proxy Group will be voted based upon the manager's instructions and/or policies. To assist it in analyzing proxies, the manager subscribes to RiskMetrics Group (RiskMetrics), an unaffiliated third-party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations, recordkeeping and vote disclosure services. In addition, the manager subscribes to Glass, Lewis & Co., LLC (Glass Lewis), an unaffiliated third-party analytical research firm, to receive analyses and vote recommendations on the shareholder meetings of publicly held U.S. companies. Although RiskMetrics' and/or Glass Lewis' analyses are thoroughly reviewed and considered in making a final voting decision, the manager does not consider recommendations from RiskMetrics, Glass Lewis or any other third party to be determinative of the manager's ultimate decision. As a matter of policy, the officers, directors/trustees and employees of the manager and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of the Fund and its shareholders. Efforts are made to resolve all conflicts in the interests of the manager's clients. Material conflicts of interest are identified by the Proxy Group based upon analyses of client, distributor, broker dealer and vendor lists, information periodically gathered from directors and officers, and information derived from other sources, including public filings. In situations where a material conflict of interest is identified, the Proxy Group may defer to the

voting recommendation of RiskMetrics, Glass Lewis or those of another independent third-party provider of proxy services; or send the proxy directly to the Fund with the manager's recommendation regarding the vote for approval. If the conflict is not resolved by the Fund, the Proxy Group may refer the matter, along with the recommended course of action by the manager, if any, to an interdepartmental Proxy Review Committee (which may include portfolio managers and/or research analysts employed by the manager), for evaluation and voting instructions. The Proxy Review Committee may defer to the voting recommendation of RiskMetrics, Glass Lewis or those of another independent third-party provider of proxy services; or send the proxy directly to the Fund. Where the Proxy Group or the Proxy Review Committee refers a matter to the Fund, it may rely upon the instructions of a representative of the Fund, such as the board or a committee of the board. Where a material conflict of interest has been identified, but the items on which the manager's vote recommendations differ from Glass Lewis, RiskMetrics, or another independent third-party provider of proxy services relate specifically to (1) shareholder proposals regarding social or environmental issues or political contributions, (2) "Other Business" without describing the matters that might be considered, or (3) items the manager wishes to vote in opposition to the recommendations of an issuer's management, the Proxy Group may defer to the vote recommendations of the manager rather than sending the proxy directly to the Fund for approval. To avoid certain potential conflicts of interest, the manager will employ echo voting, if possible, in the following instances: (1) when the Fund invests in an underlying fund in reliance on any one of Sections 12(d)(1)(E), (F), or (G) of the 1940 Act, or pursuant to an SEC exemptive order; (2) when the Fund invests uninvested cash in affiliated money market funds pursuant to an SEC exemptive order ("cash sweep arrangement"); or (3) when required pursuant to the Fund's governing documents or applicable law. Echo voting means that the investment manager will vote the shares in the same proportion as the vote of all of the other holders of the Fund's shares. The recommendation of management on any issue is a factor that the manager considers in determining how proxies should be voted. However, the manager does not consider recommendations from management to be determinative of the manager's ultimate decision. As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company's management. Each issue, however, is considered on its own merits, and the manager will not support the position of the company's management in any situation where it deems that the ratification of management's position would adversely affect the investment merits of owning that company's shares.

MANAGER'S PROXY VOTING POLICIES AND PRINCIPLES The manager has adopted general proxy voting guidelines, which are summarized below. These guidelines are not an exhaustive list of all the issues that may arise and the manager cannot anticipate all future situations. In all cases, each proxy will be considered based on the relevant facts and circumstances. **BOARD OF DIRECTORS.** The manager supports an independent board of directors, and prefers that key committees such as audit, nominating, and compensation committees be comprised of independent directors. The manager will generally vote against management efforts to classify a board and will generally support proposals to declassify the board of directors. The manager may withhold votes from directors who have attended less than 75% of meetings without a valid reason. While generally in favor of separating Chairman and CEO positions, the manager will review this issue as well as proposals to restore or provide for cumulative voting on a case-by-case basis, taking into consideration factors such as the company's corporate governance guidelines or provisions and performance. **RATIFICATION OF AUDITORS OF PORTFOLIO COMPANIES.** The manager will closely scrutinize the role and performance of auditors. On a case-by-case basis, the manager will examine proposals relating to non-audit relationships and non-audit fees. The manager will also consider, on a case-by-case basis, proposals to rotate auditors, and will vote against the ratification of auditors when there is clear and compelling evidence of accounting irregularities or negligence. **MANAGEMENT AND DIRECTOR COMPENSATION.** A company's equity-based compensation plan should be in alignment with the shareholders' long-term interests. The manager believes that executive compensation should be directly linked to the performance of the company. The manager evaluates plans on a case-by-case basis by considering several factors to determine whether the plan is fair and reasonable, including the RiskMetrics quantitative model utilized to assess such plans and/or the Glass Lewis evaluation of the plans. The manager will generally oppose plans that have the potential to be excessively dilutive, and will almost always oppose plans that are structured to allow the repricing of underwater options, or plans that have an automatic share replenishment "evergreen" feature. The manager will generally support employee stock option plans in which the purchase price is at least 85% of fair market value, and when potential dilution is 10% or less. Severance compensation arrangements will be reviewed on a case-by-case basis, although the manager will generally oppose "golden parachutes" that are considered to be excessive. The manager will normally support proposals that require a percentage of directors' compensation to be in the form of common stock, as it aligns their interests with those of shareholders. **ANTI-TAKEOVER MECHANISMS AND RELATED ISSUES.** The manager generally opposes anti-takeover measures since they tend to reduce shareholder rights. However, as with all proxy issues, the manager conducts an independent review of each anti-takeover proposal. On occasion, the manager may vote with management when the research analyst has concluded that the proposal is not onerous and would not harm the Fund or its shareholders' interests. The manager generally supports proposals that require shareholder rights' plans ("poison pills") to be subject to a shareholder vote and will closely evaluate such plans on a case-by-case basis to determine whether or not they warrant support. In addition, the manager will generally vote against any proposal to issue stock that has unequal or subordinate voting rights. The manager generally opposes any supermajority voting requirements as well as the payment of "greenmail." The manager generally supports "fair price" provisions and confidential voting. **CHANGES TO CAPITAL STRUCTURE.** The manager realizes that a company's financing decisions have a significant impact on its shareholders, particularly when they involve the issuance of additional shares of common or preferred stock or the assumption of additional debt. The manager will review, on a case-by-case basis, proposals by companies to increase authorized shares and the purpose for the increase. The manager will generally not vote in favor of dual-class capital structures to increase the number of authorized shares where that class of stock would have superior voting rights. The manager will generally vote in favor of the issuance of preferred stock in cases where the company specifies the voting, dividend, conversion and other rights of such stock and the terms of the preferred stock issuance are deemed reasonable. **MERGERS AND CORPORATE RESTRUCTURING.** Mergers and acquisitions will be subject to careful review by the research analyst to determine whether they would be beneficial to shareholders. The manager will analyze various economic and strategic factors in making the final decision on a merger or acquisition. Corporate restructuring

proposals are also subject to a thorough examination on a case-by-case basis. SOCIAL AND CORPORATE POLICY ISSUES. The manager will generally give management discretion with regard to social, environmental and ethical issues, although the manager may vote in favor of those that are believed to have significant economic benefits or implications for the Fund and its shareholders. GLOBAL CORPORATE GOVERNANCE. Many of the tenets discussed above are applied to the manager's proxy voting decisions for international investments. However, the manager must be flexible in these instances and must be mindful of the varied market practices of each region. The manager will attempt to process every proxy it receives for all domestic and foreign issuers. However, there may be situations in which the manager cannot process proxies, for example, where a meeting notice was received too late, or sell orders preclude the ability to vote. If a security is on loan, the manager may determine that it is not in the best interests of the Fund to recall the security for voting purposes. Also, the manager may abstain from voting under certain circumstances or vote against items such as "Other Business" when the manager is not given adequate information from the company. Shareholders may view the complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954)527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are available online at franklintempleton.com and posted on the SEC website at WWW.SEC.GOV. The proxy voting records are updated each year by August 31 to reflect the most recent 12-month period ended June 30. ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS. (a)(1) As of October 30, 2009, the portfolio managers of the Fund are as follows: MARK MOBIUS, PH.D, EXECUTIVE CHAIRMAN OF TEMPLETON ASSET MANAGEMENT LTD. Dr. Mobius has been a portfolio manager of the Fund since its inception. He has primary responsibility for the investments of the Fund. He has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 1987. DENNIS LIM, CO-CHIEF EXECUTIVE OFFICER AND DIRECTOR OF TEMPLETON ASSET MANAGEMENT LTD. Based in Hong Kong, Mr. Lim has been a portfolio manager of the Fund since 2000, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1990. TOM WU, DIRECTOR OF TEMPLETON ASSET MANAGEMENT LTD. Based in Hong Kong, Mr. Wu has been a portfolio manager of the Fund since its inception, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1987. (a)(2) This section reflects information about the portfolio managers as of the fiscal year ended August 31, 2009. The following table shows the number of other accounts managed by each portfolio manager and the total assets in the accounts managed within each category:

	NAME	NUMBER ASSETS	NUMBER ASSETS	NUMBER ASSETS	OF OTHER INVESTMENT VEHICLES MANAGED/1 MILLION)	OF OTHER INVESTMENT VEHICLES MANAGED/1 MILLION)	OF OTHER INVESTMENT VEHICLES MANAGED/1 MILLION)	OF REGISTERED ACCOUNTS MANAGED/1 MILLION)	REGISTERED POOLED COMPANIES (X \$1 MILLION)	REGISTERED POOLED COMPANIES (X \$1 MILLION)	OTHER VEHICLES (X \$1 MILLION)	OTHER VEHICLES (X \$1 MILLION)
	Mark Mobius	9	7,489.2	33	15,178.2	10	1,719.0					
	Dennis Lim	5	5,581.6	4	1,242.2	1	197.9					
	Tom Wu	5	5,581.6	4	2,047.1	1	197.9					

1. The various pooled investment vehicles and accounts listed are managed by a team of investment professionals. Accordingly, the individual managers listed would not be solely responsible for managing such listed amounts. Portfolio managers that provide investment services to the Fund may also provide services to a variety of other investment products, including other funds, institutional accounts and private accounts. The advisory fees for some of such other products and accounts may be different than that charged to the Fund and may include performance based compensation. This may result in fees that are higher (or lower) than the advisory fees paid by the Fund. As a matter of policy, each fund or account is managed solely for the benefit of the beneficial owners thereof. As discussed below, the separation of the trading execution function from the portfolio management function and the application of objectively based trade allocation procedures helps to mitigate potential conflicts of interest that may arise as a result of the portfolio managers managing accounts with different advisory fees. CONFLICTS. The management of multiple funds, including the Fund, and accounts may also give rise to potential conflicts of interest if the funds and other accounts have different objectives, benchmarks, time horizons, and fees as the portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. The manager seeks to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. Most other accounts managed by a portfolio manager are managed using the same investment strategies that are used in connection with the management of the Fund. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across similar portfolios, which may minimize the potential for conflicts of interest. As noted above, the separate management of the trade execution and valuation functions from the portfolio management process also helps to reduce potential conflicts of interest. However, securities selected for funds or accounts other than the Fund may outperform the securities selected for the Fund. Moreover, if a portfolio manager identifies a limited investment opportunity that may be suitable for more than one fund or other account, the Fund may not be able to take full advantage of that opportunity due to an allocation of that opportunity across all eligible funds and other accounts. The manager seeks to manage such potential conflicts by using procedures intended to provide a fair allocation of buy and sell opportunities among funds and other accounts. The structure of a portfolio manager's compensation may give rise to potential conflicts of interest. A portfolio manager's base pay and bonus tend to increase with additional and more complex responsibilities that include increased assets under management. As such, there may be a relationship between a portfolio manager's marketing or sales efforts and his or her bonus. Finally, the management of personal accounts by a portfolio manager may give rise to potential conflicts of interest. While the funds and the manager have adopted a code of ethics which they believe contains provisions reasonably necessary to prevent a wide range of

prohibited activities by portfolio managers and others with respect to their personal trading activities, there can be no assurance that the code of ethics addresses all individual conduct that could result in conflicts of interest. The manager and the Fund have adopted certain compliance procedures that are designed to address these, and other, types of conflicts. However, there is no guarantee that such procedures will detect each and every situation where a conflict arises.

COMPENSATION. The manager seeks to maintain a compensation program that is competitively positioned to attract, retain and motivate top-quality investment professionals. Portfolio managers receive a base salary, a cash incentive bonus opportunity, an equity compensation opportunity, and a benefits package. Portfolio manager compensation is reviewed annually and the level of compensation is based on individual performance, the salary range for a portfolio manager's level of responsibility and Franklin Templeton guidelines. Portfolio managers are provided no financial incentive to favor one fund or account over another. Each portfolio manager's compensation consists of the following three elements:

BASE SALARY Each portfolio manager is paid a base salary. **ANNUAL BONUS** Annual bonuses are structured to align the interests of the portfolio manager with those of the Fund's shareholders. Each portfolio manager is eligible to receive an annual bonus. Bonuses generally are split between cash (50% to 65%) and restricted shares of a Franklin Templeton fund which vest over a three-year period (17.5% to 25%) and other mutual fund shares (17.5% to 25%). The deferred equity-based compensation is intended to build a vested interest of the portfolio manager in the financial performance of both Franklin Resources and mutual funds advised by the manager. The bonus plan is intended to provide a competitive level of annual bonus compensation that is tied to the portfolio manager achieving consistently strong investment performance, which aligns the financial incentives of the portfolio manager and Fund shareholders. The Chief Investment Officer of the manager and/or other officers of the manager, with responsibility for the Fund, have discretion in the granting of annual bonuses to portfolio managers in accordance with Franklin Templeton guidelines. The following factors are generally used in determining bonuses under the plan:

|X| INVESTMENT PERFORMANCE. Primary consideration is given to the historic investment performance over the 1, 3 and 5 preceding years of all accounts managed by the portfolio manager. The pre-tax performance of each fund managed is measured relative to a relevant peer group and/or applicable benchmark as appropriate. **|X| NON-INVESTMENT PERFORMANCE.** The more qualitative contributions of a portfolio manager to the manager's business and the investment management team, including business knowledge, contribution to team efforts, mentoring of junior staff, and contribution to the marketing of the Fund, are evaluated in determining the amount of any bonus award. **|X| RESEARCH.** Where the portfolio management team also has research responsibilities, each portfolio manager is evaluated on the number and performance of recommendations over time. **|X| RESPONSIBILITIES.** The characteristics and complexity of funds managed by the portfolio manager are factored in the manager's appraisal. **ADDITIONAL LONG-TERM EQUITY-BASED COMPENSATION** Portfolio managers may also be awarded restricted shares or units of one or more mutual funds, and options to purchase common shares of a Franklin Templeton fund. Awards of such deferred equity-based compensation typically vest over time, so as to create incentives to retain key talent. Portfolio managers also participate in benefit plans and programs available generally to all employees of the manager.

OWNERSHIP OF FUND SHARES. The manager has a policy of encouraging portfolio managers to invest in the funds they manage. Exceptions arise when, for example, a fund is closed to new investors or when tax considerations or jurisdictional constraints cause such an investment to be inappropriate for the portfolio manager. The following is the dollar range of Fund shares beneficially owned by each portfolio manager (such amounts may change from time to time):

Dollar Range of Fund Shares Beneficially Owned	Portfolio Manager
-----	Mark Mobius
-----	Dennis Lim
-----	Tom Wu

Note: Because the portfolio managers are all foreign nationals, they do not hold shares in this U.S. registered fund, however they own shares in other similar Franklin Templeton funds managed by them, registered offshore and appropriate for foreign nationals.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS. N/A

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. There have been no changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Trustees that would require disclosure herein.

ITEM 11. CONTROLS AND PROCEDURES. (A) **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.** The Registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Registrant's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Registrant's management, including the principal executive officer and the principal financial officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Within 90 days prior to the filing date of this Shareholder Report on Form N-CSR, the Registrant had carried out an evaluation, under the supervision and with the participation of the Registrant's management, including the Registrant's principal executive officer and the Registrant's principal financial officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures. Based on such evaluation, the Registrant's principal executive officer and principal financial officer concluded that the Registrant's disclosure controls and procedures are effective. (B) **CHANGES IN INTERNAL CONTROLS.** There have been no significant changes in the Registrant's internal controls or in other factors that could significantly affect the internal controls subsequent to the date of their evaluation in connection with the preparation of this Shareholder Report on Form N-CSR.

ITEM 12. EXHIBITS. (A)(1) Code of Ethics (A)(2) Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Laura F. Ferguson, Chief Executive Officer - Finance and Administration, and Mark H. Otani, Chief Financial Officer and Chief Accounting Officer (B) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Laura F. Ferguson, Chief Executive Officer - Finance and Administration, and Mark H. Otani, Chief Financial Officer and Chief Accounting Officer

SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEMPLETON

EMERGING MARKETS FUND By /s/LAURA F. FERGERSON ----- Laura F. Ferguson Chief Executive Officer - Finance and Administration Date: October 28, 2009 Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. By /s/LAURA F. FERGERSON ----- Laura F. Ferguson Chief Executive Officer - Finance and Administration Date: October 28, 2009 By /s/MARK H. OTANI ----- Mark H. Otani Chief Financial Officer and Chief Accounting Officer Date: October 28, 2009