FIRSTFED AMERICA BANCORP INC
Form 10-Q
November 13, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-12305

FIRSTFED AMERICA BANCORP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 04-3331237 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| ONE FIRSTFED PARK, SWANSEA, MASSACHUSETTS | 02777 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (508) 679-8181

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes (X) No ( )

As of November 4, 2003, there were 18,296,298 shares of the Registrant's Common Stock outstanding.

FIRSTFED AMERICA BANCORP, INC.

INDEX TO FORM 10-Q

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)
(UNAUDITED)

| ASSETS | SEPTEMBER 30, 2003 |
|---|---|
| Cash on hand and due from banks | $ 37,810 |
| Short-term investments | -- |

| | |
|---|---|
| Total cash and cash equivalents | 37,810 |
| Mortgage loans held for sale | 272,110 |
| Investment securities available for sale, at fair value (amortized cost of $8,633 and $16,659) | 15,737 |
| Mortgage-backed securities available for sale, at fair value (amortized cost of $613,819 and $623,841) | 612,021 |
| Mortgage-backed securities held to maturity (fair value of $845 and $956) | 823 |
| Stock in Federal Home Loan Bank of Boston, at cost | 58,433 |
| Loans receivable | |
| Residential mortgages | 666,812 |
| Commercial real estate mortgages | 173,631 |
| Construction and land mortgages | 43,816 |
| Commercial | 267,145 |
| Consumer | 217,273 |
| Allowance for loan losses | (19,318) |
| Loans receivable, net | 1,349,359 |
| Accrued interest receivable | 8,487 |
| Mortgage servicing rights, net of valuation allowance of $2,074 and $3,095 | 7,679 |
| Office properties and equipment, net | 37,255 |
| Bank-owned life insurance | 38,383 |
| Goodwill and other intangible assets | 52,553 |
| Prepaid expenses and other assets | 21,646 |
| Total assets | $ 2,512,296 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|---|---|
| Liabilities: | |
| Deposits | |
| Demand | $ 634,996 |
| Savings | 313,807 |
| Time | 585,842 |
| Total deposits | 1,534,645 |
| FHLB advances and other borrowings | 708,001 |
| Company obligated, mandatorily redeemable securities | 11,232 |
| Advance payments by borrowers for taxes and insurance | 6,667 |
| Accrued interest payable | 3,495 |
| Other liabilities | 49,719 |
| Total liabilities | 2,313,759 |
| Stockholders' equity: | |
| Common stock | 220 |
| Additional paid-in capital | 129,117 |
| Retained earnings | 105,294 |
| Accumulated other comprehensive income | 3,120 |
| Unallocated ESOP shares | (1,549) |
| Unearned 1997 stock-based incentive plan | (39) |
| Treasury stock | (37,626) |
| Total stockholders' equity | 198,537 |
| Total liabilities and stockholders' equity | $ 2,512,296 |

See accompanying notes to consolidated financial statements.

FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

| | FOR THE THREE MONTHS ENDED SEPTEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2 |
| Interest and dividend income: | | | |
| Loans ............................................ | $24,315 | $ 21,575 | $4 |
| Mortgage-backed securities ............................ | 6,135 | 10,011 | 1 |
| Investment securities ................................ | 265 | 824 | |
| Federal Home Loan Bank stock .......................... | 449 | 553 | |
| Total interest and dividend income ................ | 31,164 | 32,963 | 6 |
| Interest expense: | | | |
| Deposits ............................................. | 5,596 | 7,289 | 1 |
| Borrowed funds ....................................... | 8,835 | 10,547 | 1 |
| Total interest expense ........................... | 14,431 | 17,836 | 2 |
| Net interest income before provision for loan losses | 16,733 | 15,127 | 3 |
| Provision for loan losses .................................. | 125 | 150 | |
| Net interest income after provision for loan losses | 16,608 | 14,977 | 3 |
| Non-interest income: | | | |
| Service charges on deposit accounts ................... | 875 | 621 | |
| Trust fee income ...................................... | 406 | 352 | |
| Loan servicing income (expense) ....................... | 1,251 | (915) | |
| Insurance commission income ........................... | 367 | 230 | |
| Earnings on Bank-Owned Life Insurance ................. | 426 | 480 | |
| Gain on sale of mortgage loans, net ................... | 6,917 | 7,311 | 1 |
| Gain on sale of investment securities available for sale | 426 | 40 | |
| Other income .......................................... | 886 | 705 | |
| Total non-interest income ......................... | 11,554 | 8,824 | 2 |
| Non-interest expense: | | | |
| Compensation and employee benefits .................... | 11,664 | 8,648 | 2 |
| Office occupancy and equipment ........................ | 2,122 | 2,099 | |
| Data processing ....................................... | 680 | 697 | |
| Advertising and business promotion .................... | 359 | 199 | |
| Amortization of intangible assets ..................... | 553 | 607 | |
| Other expense ......................................... | 2,725 | 2,323 | |
| Total non-interest expense ........................ | 18,103 | 14,573 | 3 |
| Income before income tax expense .................. | 10,059 | 9,228 | 2 |
| Income tax expense ......................................... | 4,136 | 3,581 | |
| Net income ........................................ | $ 5,923 | $ 5,647 | $1 |

| | | | |
|---|---|---|---|
| Basic earnings per share .................................. | $ 0.35 | $ 0.35 | $ |
| Diluted earnings per share ................................ | $ 0.34 | $ 0.34 | $ |
| Weighted average shares outstanding - basic ................ | 16,972 | 16,031 | 1 |
| Weighted average shares outstanding - diluted .............. | 17,611 | 16,542 | 1 |

See accompanying notes to consolidated financial statements.

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FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | UNALLOCATED ESOP SHARES | UNE 19 STOC INC PLA S |
|---|---|---|---|---|---|---|
| Balance at March 31, 2003....... | $ 216 | $125,198 | $ 97,100 | $9,777 | $(1,549) | $ |
| Earned SIP stock awards....... | -- | (5) | -- | -- | -- | |
| Earned ESOP shares charged to expense.......... | -- | 970 | -- | -- | -- | |
| Stock options exercised....... | 4 | 2,954 | -- | -- | -- | |
| Cash dividends declared and paid (1st quarter at $0.10 per share; 2nd quarter at $0.13 per share)...................... | -- | -- | (3,988) | -- | -- | |
| Common stock acquired for certain employee benefit plans (5,396 shares at an average price of $14.85 per share)........... | -- | -- | -- | -- | -- | |
| Comprehensive income: | | | | | | |
| Net income.................. | -- | -- | 12,182 | -- | -- | |
| Other comprehensive income (loss), net of tax Unrealized holding losses on available for sale securities, net of taxes of ($4,290)......... | -- | -- | -- | (5,460) | -- | |
| Reclassification adjustment for gains included in net | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| income, net of taxes of $941.................. | -- | -- | -- | (1,197) | -- | |
| Net unrealized losses....... | -- | -- | -- | (6,657) | -- | |
| Total comprehensive income.................. | -- | -- | -- | -- | -- | |
| Balance at September 30, 2003... | $ 220 | $129,117 | $105,294 | $3,120 | $(1,549) | $ |

See accompanying notes to consolidated financial statements.



FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

| | FOR THE SIX MON ENDED SEPTEMBER | |
|---|---|---|
| | 2003 | |
| Cash flows from operating activities: | | |
| Net income ........................................................ | $ 12,182 | $ |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Amortization (accretion) of: | | |
| Discounts, net ............................................ | (1,322) | |
| Deferred loan origination costs ............................ | 890 | |
| Mortgage servicing rights .................................. | 1,564 | |
| Intangible assets .......................................... | 1,106 | |
| Provision for loan losses .................................... | 375 | |
| Provision for estimated impairment on mortgage servicing rights | 171 | |
| Gains on sales of: | | |
| Mortgage loans ............................................. | (16,615) | |
| Investment and mortgage-backed securities available-for-sale | (2,138) | |
| Office property and equipment .............................. | (2) | |
| Net proceeds from sales of mortgage loans ..................... | 1,993,526 | |
| Origination of mortgage loans held for sale ................... | (2,008,293) | ( |
| Earnings on bank-owned life insurance ......................... | (870) | |
| Depreciation of office properties and equipment ................ | 2,165 | |
| Appreciation in fair value of ESOP shares ..................... | 970 | |
| Earned SIP shares ............................................. | 68 | |
| Increase or decrease in: | | |
| Accrued interest receivable ................................ | (899) | |
| Other assets ............................................... | (3,059) | |
| Accrued interest payable ................................... | (112) | |
| Other liabilities .......................................... | (11,410) | |
| Net cash used in operating activities ...................... | (31,703) | |
| Cash flows from investing activities: | | |

| | | |
|---|---|---|
| Purchase of investment securities available for sale | (2,678) | |
| Purchase of mortgage-backed securities available for sale | (284,086) | |
| Payments received on mortgage-backed securities | 207,632 | |
| Proceeds from sale of investments securities available for sale | 8,219 | |
| Proceeds from sale of mortgage-backed securities available for sale | 87,781 | |
| Maturities of investment securities available for sale | 2,909 | |
| Net increase in loans | (109,863) | |
| Proceeds from sale of office properties and equipment | 12 | |
| Purchases of office properties and equipment | (1,132) | |
| Net cash used in investing activities | (91,206) | |
| Cash flows from financing activities: | | |
| Net increase in deposits | 107,710 | |
| Proceeds from FHLB advances and other borrowings | 14,621,097 | |
| Repayments on FHLB advances and other borrowings | (14,623,200) | ( |
| Net change in advance payments by borrowers for taxes and insurance | 693 | |
| Cash dividends paid | (3,988) | |
| Payments to acquire common stock and stock issuance costs | (80) | |
| Common stock issued in private placement | -- | |
| Stock options exercised | 2,958 | |
| Net cash provided by financing activities | 105,190 | |
| Net decrease in cash and cash equivalents | (17,719) | |
| Cash and cash equivalents at beginning of period | 55,529 | |
| Cash and cash equivalents at end of period | $ 37,810 | $ |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 28,812 | $ |
| Income taxes | $ 7,042 | $ |

See accompanying notes to consolidated financial statements.



FIRSTFED AMERICA BANCORP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of FIRSTFED AMERICA BANCORP, INC. (the "Company"), its wholly-owned subsidiaries, First Federal Savings Bank of America (the "Bank"), FAB FUNDING CORPORATION ("FAB FUNDING") and FIRSTFED INSURANCE AGENCY, LLC (the "Agency"), People's Bancshares Capital Trust II ("Capital Trust II"), and the Company's 65% interest in FIRSTFED TRUST COMPANY, N.A. (the "Trust Company"). The remaining 35% interest of the Trust Company is held by M/D Trust, LLC, a minority owner. The Bank includes its wholly-owned subsidiaries, People's Mortgage Corporation ("PMC"), FIRSTFED INVESTMENT CORPORATION, and CELMAC INVESTMENT CORPORATION.

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. Certain amounts previously reported have been reclassified to conform to the current year's presentation. The results of operations for the six months ended September 30, 2003 are not necessarily indicative of the results of operations that may be expected for all of fiscal year 2004.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003.

(2) STOCK SPLIT

On June 26, 2003, the Company's Board of Directors declared a 2-for-1 common stock split that was distributed on July 17, 2003 to shareholders of record as of July 7, 2003. In the accompanying unaudited consolidated financial statements, Management's Discussion and Analysis of Financial Condition and Results of Operation, and Other Information, the numbers of shares and per share amounts of the Company's common stock have been retroactively restated to reflect the increased number of common shares outstanding.

(3) GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill and other intangible assets for the six months ended September 30, 2003 are as follows (in thousands):

| | GOODWILL | CORE DEPOSIT INTANGIBLE ASSET | NON-COMPETE INTANGIBLE ASSET | TOTAL IDENTIFIABL INTANGIBLE ASSETS |
|---|---|---|---|---|
| Balance at March 31, 2003 | $43,825 | $ 9,596 | $ 238 | $ 9,834 |
| Recorded during the period | -- | -- | -- | -- |
| Amortization expense | -- | (976) | (130) | (1,106) |
| Impairment recognized | -- | -- | -- | -- |
| Balance at September 30, 2003 | $43,825 | $ 8,620 | $ 108 | $8,728 |
| Estimated amortization expense for fiscal years ended March 31: | | | | |
| 2004 | | $ 1,933 | $ 238 | $ 2,171 |
| 2005 | | 1,717 | -- | 1,717 |
| 2006 | | 1,500 | -- | 1,500 |
| 2007 | | 1,283 | -- | 1,283 |
| 2008 | | 1,066 | -- | 1,066 |
| After 2008 | | 2,097 | -- | 2,097 |

The components of identifiable intangible assets at September 30, 2003 are as follows (in thousands):

| GROSS CARRYING | ACCUMULATED | NET CARRYING |
|---|---|---|

| | AMOUNT | AMORTIZATION | AMOUNT |
|---|---|---|---|
| Core deposit intangible asset | $11,926 | $3,306 | $8,620 |
| Non-compete intangible asset | 520 | 412 | 108 |
| | $12,446 | $3,718 | $8,728 |



(4) STOCK OPTION PLANS

The Company continues to follow the intrinsic value method for accounting for its stock option plans. Accordingly, no compensation expense has been recognized in the financial statements. Had the Company determined compensation expense based on the fair value at the grant date for its stock options, the Company's net income would have been reduced to the pro forma amounts indicated below (dollars in thousands, except per share data):

| | FOR THE THREE MONTHS ENDED SEPTEMBER 30, | | FOR THE SIX MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income as reported .............. | $5,923 | $5,647 | $12,182 | $10,081 |
| Pro forma net income ................ | 5,756 | 5,540 | 11,847 | 9,866 |
| Basic earning per share as reported .. | 0.35 | 0.35 | 0.72 | 0.63 |
| Diluted earnings per share as reported | 0.34 | 0.34 | 0.70 | 0.61 |
| Pro forma basic earnings per share ... | 0.34 | 0.35 | 0.70 | 0.62 |
| Pro forma diluted earnings per share . | 0.33 | 0.33 | 0.68 | 0.60 |

The fair value of stock options was determined by using the trinomial option pricing model. No stock options have been granted since fiscal year 2001.

(5) RECENT DEVELOPMENTS

On October 7, 2003, the Company announced that it had reached a definitive agreement to be acquired by Webster Financial Corporation ("Webster"), headquartered in Waterbury, Connecticut. Webster is the holding company for Webster Bank. Pursuant to the agreement, the Bank will be merged with and into Webster Bank, and the Company's shareholders will be entitled to receive either 0.5954 shares of Webster common stock or $24.50 in cash for each share of the Company's common stock, subject to proration. The transaction is valued at approximately $465 million, payable 60% in Webster stock and 40% in cash. Following consummation of the merger, the combined bank will rank as the 45th largest in the United States, with $16 billion in assets, market capitalization of $2.2 billion and a 141-branch retail footprint in Connecticut, Massachusetts and Rhode Island. The transaction, which is subject to approval by regulatory authorities and the Company's shareholders, is expected to close in the first calendar quarter of 2004.

The proposed transaction will be submitted to the Company's shareholders for their consideration. Webster and the Company will file with the SEC a registration statement, a proxy statement/prospectus and other relevant documents concerning the proposed transaction with the SEC. Shareholders of the Company are urged to read the registration statement and the proxy statement/prospectus when it becomes available and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information.

(6) IMPACT OF RECENT ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51." FIN No. 46 establishes accounting guidance for consolidation of variable interest entities ("VIE") that function to support the activities of the primary beneficiary. The primary beneficiary of a VIE entity is the entity that absorbs a majority of the VIEs expected losses, receives a majority of the VIEs expected residual returns, or both, as a result of ownership, controlling interest, contractual relationship or other business relationship with a VIE. Prior to the implementation of FIN No. 46, VIEs were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The Company adopted FIN No. 46 as of February 1, 2003 for all arrangements entered into after January 31, 2003 and will adopt as of December 31, 2003 for other arrangements entered into prior to January 31, 2003 per FASB Staff Position No. FIN 46-6. The Company does not believe the adoption of this interpretation will have a material impact on the Company's Consolidated Financial Statements.

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 requires derivatives contracts with comparable characteristics be accounted for similarly. In particular, SFAS No. 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of Statement 133, (2) clarifies when a derivative contains a financing component, and (3) amends the definition of an underlying event to conform it to language used in FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and (4) amends certain other existing pronouncements. This Statement is effective for contracts entered into or modified after June 30, 2003. The Company does not believe the adoption of SFAS No. 149 will have a material impact on the Company's Consolidated Financial Statements.



In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150, which was effective July 1, 2003, requires an issuer to classify a financial instrument within the scope of the statement as a liability if the financial instrument embodies an obligation of the issuer. The adoption of SFAS No. 150 did not have a material impact on the Company's Consolidated Financial Statements.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL

The Company's primary business is attracting retail deposits from the general public and investing those deposits and other borrowed funds in loans, mortgage-backed securities, U.S. Government securities and other securities. The Company originates commercial, consumer, and mortgage loans for investment, and mortgage loans for sale in the secondary market. The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans and securities, FHLB advances, and other borrowings.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the income earned on its loan, investment and mortgage-backed securities portfolios, and its cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by the Company's provision for loan losses and non-interest income including gains on sale of loans and investment securities, service charges on deposit accounts, loan servicing income, revenue from the Trust Company and Agency operations, earnings on bank-owned life insurance ("BOLI"), and other income. The Company's non-interest expense consists of compensation and employee benefits, office occupancy and equipment expense, data processing expense, advertising and business promotion, amortization of intangible assets, and other expenses. Results of operations of the Company are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and the actions of regulatory authorities.

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information on the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

Subject to applicable laws and regulations, the Company does not undertake - and specifically disclaims any obligation - to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

The following discussion should be read in conjunction with the financial statements, notes, discussion and tables included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003.

## RESULTS OF OPERATIONS

OVERVIEW

Net income increased $276,000, or 5%, to $5.9 million for the second quarter of fiscal year 2004 from $5.6 million for the second quarter of fiscal year 2003. Diluted earnings per share ("EPS") was $0.34 for the second quarter of fiscal year 2004, compared to the same amount for the second quarter of fiscal year 2003. Income before income tax expense increased $831,000, or 9%, to $10.1 million, the net result of increases in net interest income after provision for loan losses of $1.6 million, non-interest income of $2.7 million, and non-interest expense of $3.5 million.

For the first six months of fiscal year 2004, net income was $12.2 million, an increase of $2.1 million, or 21%, from $10.1 million for the first six months of fiscal year 2003. Diluted EPS increased 15% to $0.70 for the first six months of fiscal year 2004 from $0.61 for the first six months of fiscal year 2003. Income before income tax expense increased $4.1 million, or 25%, to $20.5 million, the net result of increases in net interest income after provision for loan losses of $2.8 million, non-interest income of $7.9 million, and non-interest expense of $6.6 million.



Return on average stockholders' equity was 11.52% for the second quarter of fiscal year 2004 and 12.17% for the first six months of fiscal year 2004, compared to 12.65% and 12.02% for the respective periods of fiscal year 2003. Return on average assets was 0.85% for the second quarter of fiscal year 2004 and 0.92% for the first six months of fiscal year 2004, compared to 0.92% and 0.85% for the respective periods of fiscal year 2003.

NET INTEREST INCOME

Net interest income before provision for loan losses increased $1.6 million, or 11%, to $16.7 million for the second quarter of fiscal year 2004 from $15.1 million for the second quarter of fiscal year 2003. The net interest rate spread and net interest margin were 2.37% and 2.58%, respectively, for the second quarter of fiscal year 2004, compared to 2.49% and 2.71%, respectively, for the second quarter of fiscal year 2003. For the first six months of fiscal year 2004, net interest income before provision for loan losses increased $2.9 million, or 10%, to $31.6 million for the first six months of fiscal year 2004 from $28.7 million for the first six months of fiscal year 2003. The net interest rate spread and net interest margin were 2.34% and 2.59%, respectively, for the first six months of fiscal year 2004, compared to 2.46% and 2.67%, respectively, for the first six months of fiscal year 2003. The increases in net interest income were due primarily to growth in loans receivable, net, and mortgage loans held for sale, as funded principally by increases in deposits. The decreases in the net interest rate spread and net interest margin reflected declines in market interest rates, with reductions in the Company's interest yields on interest-earning assets exceeding the reductions in its interest costs on interest-bearing liabilities.

The following tables set forth certain information relating to the Company for the periods indicated. The average yields and costs are derived by dividing income or expense by the average balance of interest earning assets or interest bearing liabilities, respectively, for the periods shown. Average balances are derived from the best available daily or monthly data, which management believes approximates the average balances computed on a daily basis. The yields and the costs include fees, premiums, and discounts which are considered adjustments to yields.

FOR THE THREE MONTHS ENDED SEPTEMBER

(DOLLARS IN THOUSANDS)

| | 2003 AVERAGE BALANCE | 2003 INTEREST | 2003 AVERAGE YIELD/ COST | 2002 AVERAGE BALANCE | 2002 INTER |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Interest-earning assets: | | | | | |
| Loans receivable, net and mortgage loans held for sale (1) | $1,826,473 | $24,315 | 5.33% | $1,302,078 | $21, |
| Investment securities (2) | 80,963 | 714 | 3.50 | 106,180 | 1, |
| Mortgage-backed securities (3) | 665,434 | 6,135 | 3.69 | 807,172 | 10, |
| Total interest-earning assets | 2,572,870 | 31,164 | 4.85 | 2,215,430 | 32, |
| Noninterest-earning assets | 195,772 | | | 219,657 | |
| Total assets | $2,768,642 | | | $2,435,087 | |
| Liabilities and Stockholders' Equity: | | | | | |
| Interest-bearing liabilities: | | | | | |
| Deposits (4) | $1,365,637 | 5,596 | 1.63 | $1,139,713 | 7, |
| FHLB advances and other borrowings | 947,314 | 8,835 | 3.70 | 904,050 | 10, |
| Total interest-bearing liabilities | 2,312,951 | 14,431 | 2.48 | 2,043,763 | 17, |
| Noninterest-bearing liabilities (5) | 251,643 | | | 214,191 | |
| Total liabilities | 2,564,594 | | | 2,257,954 | |
| Stockholders' equity | 204,048 | | | 177,133 | |
| Total liabilities and stockholders' equity | $2,768,642 | | | $2,435,087 | |
| Net interest rate spread (6) | | $16,733 | 2.37% | | $15, |
| Net interest margin (7) | | | 2.58% | | |
| Ratio of interest-earning assets to interest-bearing liabilities | 111.24% | | | 108.40% | |

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FOR THE SIX MONTHS ENDED SEPTEMBER 30

2003 200

AVERAGE

| | BALANCE | AVERAGE INTEREST | YIELD/ COST | AVERAGE BALANCE | INTE |
|---|---|---|---|---|---|
| | | | (DOLLARS IN THOUSANDS) | | |
| Assets: | | | | | |
| Interest-earning assets: | | | | | |
| Loans receivable, net and mortgage loans held for sale (1) | $1,703,218 | $46,395 | 5.45% | $1,258,202 | $42, |
| Investment securities (2) | 86,298 | 1,481 | 3.42 | 139,386 | 3, |
| Mortgage-backed securities (3) | 647,308 | 12,452 | 3.85 | 751,524 | 18, |
| Total interest-earning assets | 2,436,824 | 60,328 | 4.95 | 2,149,112 | 64, |
| Noninterest-earning assets | 193,167 | | | 223,342 | |
| Total assets | $2,629,991 | | | $2,372,454 | |
| Liabilities and Stockholders' Equity: | | | | | |
| Interest-bearing liabilities: | | | | | |
| Deposits (4) | $1,330,006 | 11,434 | 1.71 | $1,159,150 | 14, |
| FHLB advances and other borrowings | 863,169 | 17,266 | 3.99 | 855,111 | 21, |
| Total interest-bearing liabilities | 2,193,175 | 28,700 | 2.61 | 2,014,261 | 35, |
| Noninterest-bearing liabilities (5) | 237,183 | | | 190,918 | |
| Total liabilities | 2,430,358 | | | 2,205,179 | |
| Stockholders' equity | 199,633 | | | 167,275 | |
| Total liabilities and stockholders' equity | $2,629,991 | | | $2,372,454 | |
| Net interest rate spread (6) | | $31,628 | 2.34% | | $28, |
| Net interest margin (7) | | | 2.59% | | |
| Ratio of interest-earning assets to interest-bearing liabilities | 111.11% | | | 106.69% | |

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(1) Amount is net of deferred loan origination costs, undisbursed proceeds of construction mortgages in process, allowance for loan losses and includes non-performing loans.
(2) Includes short-term investments, investment securities available for sale and FHLB stock.
(3) Consists of mortgage-backed securities available for sale and held to maturity.
(4) Includes the net effect of interest rate swaps.
(5) Consists primarily of business checking accounts.
(6) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(7) Net interest margin represents net interest income as a percentage of average interest-earning assets.

PROVISION FOR LOAN LOSSES

The Company's provision for loan losses was $125,000 for the second quarter of fiscal year 2004, compared to $150,000 for the second quarter of fiscal year 2003. For the first six months of fiscal year 2004, the provision for loan losses was $375,000, compared to $250,000 for the first six months of fiscal year 2003. These provisions were based primarily on management's assessment of several key factors, including portfolio growth and composition changes, charge-offs, internal loan review classifications, and current economic conditions. For additional information on the amount of the allowance and the process for evaluating its adequacy, see "Financial Condition -- Asset Quality -- Allowance for Loan Losses."

NON-INTEREST INCOME

Non-interest income increased $2.7 million, or 31%, to $11.6 million for the second quarter of fiscal year 2004 from $8.8 million for the second quarter of fiscal year 2003, due primarily to increases of $2.2 million in loan servicing income, and $386,000 in gain on sale of investment securities available for sale, partially offset by a decrease of $394,000 in gain on sale of mortgage loans. For the first six months of fiscal year 2004, non-interest income increased $7.9 million, or 46%, to $24.9 million from $17.0 million for the first six months of fiscal year 2003, due primarily to increases of $1.0 million in loan servicing income, $5.1 million in gain on sale of mortgage loans, and $567,000 in gain on sale of investment securities available for sale.

The decrease in gain on sale of mortgage loans for the second quarter was due primarily to changes in fair value of derivative instruments utilized in secondary market hedging activities, as required by SFAS No. 133, that resulted in a reduction to the gain of $1.8 million for the second quarter of fiscal year 2004, compared to an addition of $269,000 for the second quarter of fiscal year 2003. This $1.8 million reduction to the gain in the second quarter of fiscal year 2004 reflected fluctuations in market interest rates for mortgage loans and a decline in commitments to originate mortgage loans for sale that exceeds the decline in commitments to sell mortgage loans. The increase in gain on sale of mortgage loans for the first six months was due primarily to a higher volume of loans originated for sale, partially offset



by changes in fair value of derivative instruments utilized in secondary market hedging activities that resulted in a reduction to the gain of $924,000 for first six months of fiscal year 2004, compared to an addition of $162,000 for the first six months of fiscal year 2003. In accordance with generally accepted accounting principles, the Company did not recognize $1.6 million of unrealized gains as of September 30, 2003 on mortgage loans held for sale that are carried at the lower of cost or market value.

The increase in loan servicing income for the second quarter was due primarily to a $1.2 million recovery of valuation allowance for mortgage servicing rights for the second quarter of fiscal year 2004, compared to a $1.2 million addition to the valuation allowance for the second quarter of fiscal year 2003. The increase in loan servicing income for the first six months was due primarily to a $1.4 million addition to the valuation allowance for the first quarter of fiscal year 2004 offset by the $1.2 million recovery for the second quarter of fiscal year 2004, compared to a $1.4 million addition to the valuation allowance for the first six months of fiscal year 2003. The valuation allowance adjustments were based on estimated impairment due to a combination of actual payoff experience and prepayment forecasts for the applicable periods. The recovery in the second quarter of fiscal year 2004 resulted from an increase in the present value of the Company's mortgage servicing rights. Amortization of mortgage servicing rights totaled $836,000 for the second quarter of fiscal year

2004 and $1.6 million for the first six months of fiscal year 2004, compared to $763,000 and $1.5 million for the respective periods of fiscal year 2003.

NON-INTEREST EXPENSE

Non-interest expense increased $3.5 million, or 24%, to $18.1 million for the second quarter of fiscal year 2004 from $14.6 million for the second quarter of fiscal year 2003, due primarily to an increase of $3.0 million in compensation and benefits. For the first six months of fiscal year 2004, non-interest expense increased $6.6 million, or 23%, to $35.7 million from $29.1 million for the first six months of fiscal year 2003, due primarily to an increase of $5.3 million in compensation and benefits. The increases in compensation and benefits were due primarily to higher costs related to growth in mortgage originations, the net accounting impact of market price increases of FAB stock held by certain employee benefit plans, and higher employee health plan costs.

INCOME TAXES

Income tax expense increased $555,000, or 15%, to $4.1 million for the second quarter of fiscal year 2004 from $3.6 million for the second quarter of fiscal year 2003. For the first six months of fiscal year 2004, income tax expense increased $2.0 million, or 31%, to $8.3 million from $6.3 million for the first six months of fiscal year 2003. The Company's effective tax rate increased to 40.5% for the first six months of fiscal year 2004 from 38.6% for the first six months of fiscal year 2003, due primarily to the effects of increased state taxes and a lower earnings rate from BOLI relative to the increase in pre-tax income.

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FINANCIAL CONDITION

OVERVIEW

Total assets increased $97.8 million, or 4%, to $2.512 billion at September 30, 2003 from $2.414 billion at March 31, 2003, due primarily to an increase of $108.0 million, or 9%, in loans receivable, net.

The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated:

| | SEPTEMBER 30, 2003 | | MARCH 31, 2003 | |
|---|---|---|---|---|
| | AMOUNT | PERCENT OF TOTAL | AMOUNT | PERCENT OF TOTAL |
| | (DOLLARS IN THOUSANDS) | | | |
| Mortgage Loans: | | | | |
| Residential | $ 661,296 | 47.89% | $601,063 | 47.21% |
| Commercial real estate | 173,631 | 12.57 | 142,974 | 11.23 |
| Construction and land | 62,702 | 4.54 | 61,698 | 4.85 |
| Total mortgage loans | 897,629 | 65.00 | 805,735 | 63.29 |

| | | | | |
|---|---|---|---|---|
| Commercial Loans | 267,237 | 19.35 | 283,137 | 22.24 |
| Consumer Loans: | | | | |
| Home equity lines | 175,975 | 12.74 | 140,189 | 11.01 |
| Second mortgages | 30,778 | 2.23 | 32,914 | 2.58 |
| Other consumer loans | 9,273 | 0.68 | 11,158 | 0.88 |
| Total consumer loans | 216,026 | 15.65 | 184,261 | 14.47 |
| Total loans receivable | 1,380,892 | 100.00% | 1,273,133 | 100.00% |
| Less: | | | | |
| Allowance for loan losses | (19,318) | | (19,335) | |
| Undisbursed proceeds of construction mortgages in process | (18,886) | | (17,752) | |
| Purchase premium on loans, net | 2,807 | | 3,377 | |
| Deferred loan origination costs, net | 3,864 | | 1,908 | |
| Loans receivable, net | $1,349,359 | | $1,241,331 | |

Mortgage loan originations totaled $2.301 billion for the first six months of fiscal year 2004, including $2.008 billion originated for sale of which $1.591 billion were originated by PMC. During this time, $1.969 billion of mortgage loans were sold in the secondary market, including $1.530 billion sold servicing released by PMC.

Mortgage loans sold to others and serviced by the Bank on a fee basis under various agreements decreased $149.4 million, or 11%, to $1.263 billion at September 30, 2003 from $1.412 billion at March 31, 2003, due primarily to refinancing activity. Loans serviced for others are not included in the Consolidated Balance Sheets. Mortgage servicing rights, net of the valuation allowance, increased $1.7 million, or 29%, to $7.7 million at September 30, 2003, from $6.0 million at March 31, 2003. The valuation allowance related to the impairment of mortgage servicing rights decreased $1.0 million to $2.1 million at September 30, 2003, from $3.1 million at March 31, 2003, due to a valuation recovery of $1.2 million during the second quarter of fiscal year 2004 and a write-down of $1.2 million for permanent impairment during the first quarter of fiscal year 2004, less an addition for estimated impairment of $1.4 million during the first quarter of fiscal year 2004. Mortgage servicing rights were 0.61% of loans serviced for others at September 30, 2003, compared to 0.42% at March 31, 2003.

Balance sheet growth during the first six months of fiscal year 2004 was primarily funded by an increase of $107.5 million in deposit balances. The 8% increase in deposits, to $1.535 billion at September 30, 2003, included increases in demand deposits of $61.7 million, or 11%, savings deposits of $27.1 million, or 9%, and time deposits of $18.8 million, or 3%. The Company's demand and savings accounts, or core deposits, were 61.8% of total deposits at September 30, 2003, compared to 60.3% at March 31, 2003.



Total stockholders' equity increased $5.5 million, or 3%, to $198.5 million at September 30, 2003, from $193.1 million at March 31, 2003. The increase was due primarily to $12.2 million in net income and a $3.0 million increase from common shares issued for stock options exercised, partially offset by $4.0 million in dividends paid to stockholders and a $6.7 million decrease in the fair market value of available for sale securities, net of tax. Stockholders' equity to assets was 7.90% at September 30, 2003, compared to 8.00% at March 31, 2003. Book value per share increased to $11.66 at September 30, 2003 from $11.63 at March 31, 2003. Tangible book value per share increased to $8.57 at September 30, 2003 from $8.40 at March 31, 2003.

ASSET QUALITY

Non-Performing Assets. The following table sets forth information regarding non-accrual loans and real estate owned ("REO"). The Company ceases to accrue interest on loans 90 days or more past due and charges off all accrued interest. Foregone interest on non-accrual loans was $23,000 for the three months ended September 30, 2003 and $50,000 for the six months ended September 30, 2003.

| | SEPTEMBER 30, 2003 | MARCH 31, 2003 |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| Non-accrual loans: | | |
| Mortgage loans: | | |
| One-to-four family | $ 452 | $1,699 |
| Commercial real estate | 438 | 96 |
| Total mortgage loans | 890 | 1,795 |
| Commercial loans | 432 | 1,388 |
| Consumer loans: | | |
| Home equity lines | -- | -- |
| Second mortgages | 104 | 107 |
| Other consumer loans | 37 | 15 |
| Total consumer loans | 141 | 122 |
| Total non-accrual loans | 1,463 | 3,305 |
| REO, net (1) | 194 | 194 |
| Total non-performing assets | $1,657 | $3,499 |
| Allowance for loan losses as a percent of loans (2) | 1.41% | 1.53% |
| Allowance for loan losses as a percent of non-performing loans (3) | 1,320% | 585% |
| Non-accrual loans as a percent of loans (2)(3) | 0.11% | 0.26% |
| Non-performing assets as a percent of total assets | 0.07% | 0.14% |

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(1) REO balances are shown net of related valuation allowances.
(2) Loans includes loans receivable, net, excluding allowance for loan losses.
(3) Non-performing loans consist of all loans 90 days or more past due and other loans which have been identified by the Company as presenting uncertainty with respect to the collectability of interest or principal.

The decrease of $1.8 million in non-performing assets during the first six months of fiscal year 2004 was due primarily to declines of $905,000 in non-accrual mortgage loans and $956,000 in non-accrual commercial loans.

Allowance for Loan Losses. The allowance for loan losses is based on management's ongoing review and estimate of the credit losses inherent in the loan portfolio. Management's methodology to estimate loss exposure inherent in the portfolio includes analysis of individual loans deemed to be impaired, performance of individual loans in relation to contract terms, and allowance allocations for various loan types based on payment status or loss experience. An unallocated allowance is also maintained within an established range based on management's assessment of many factors including current market conditions, trends in loan delinquencies and charge-offs, the volume and mix of new originations, and the current type, mix, changing risk profiles and balance of the portfolio. In addition, the OTS, as an integral part of their examination process, periodically reviews the Company's allowance for loan losses. The OTS and the FDIC may require the Company to adjust the allowance for loan losses based upon judgments different from those of management.



The allowance for loan losses totaled $19.3 million at September 30, 2003, compared to $19.3 million at March 31, 2003. The following table sets forth activity in the Company's allowance for loan losses for the periods indicated:

| | FOR THE THREE MONTHS ENDED SEPTEMBER 30, | | FOR THE SIX MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (DOLLARS IN THOUSANDS) | | | |
| Balance at beginning of period .......... | $ 19,521 | $ 19,215 | $ 19,335 | $ 19,23 |
| Provision for loan losses ............... | 125 | 150 | 375 | 25 |
| Charge-offs: | | | | |
| One-to-four family mortgage loans ..... | -- | -- | (63) | (1 |
| Commercial loans ..................... | (298) | -- | (298) | (8 |
| Consumer Loans: | | | | |
| Home equity lines ................. | -- | (14) | (11) | (2 |
| Second mortgages .................. | -- | -- | -- | - |
| Other consumer .................... | (35) | (32) | (49) | (5 |
| Total ...................... | (333) | (46) | (421) | (17 |
| Recoveries .............................. | 5 | 2 | 29 | |
| Balance at end of period ................ | $ 19,318 | $ 19,321 | $ 19,318 | $ 19,32 |
| Ratio of net charge-offs during the period to average loans outstanding during the period ................................ | 0.10% | 0.02% | 0.06% | 0.03% |

Management was influenced by several key factors as a basis for the level of the Company's provisions for loan losses, which resulted in the changes to the provision of loan losses and the allowance for loan losses during the past year. Although the Company's non-performing loans and charge-offs have remained low, there has been a shift in the composition of the loan portfolio at September 30, 2003 as compared to September 30, 2002. The residential mortgage portfolio has increased due primarily to the origination and retention of certain adjustable-rate and fixed-rate mortgage loans with terms of 15 years or less, and high refinancing activity reflecting the low fixed rate environment. The commercial and consumer loan portfolios have also continued to show significant growth. Commercial and consumer loans bear a higher degree of risk than the one-to-four family mortgage loans that make up substantially all of the Company's residential portfolio. Management also considered internal loan review classifications and current economic conditions, including unemployment rates in the Company's key market area of southeastern New England, which could have an adverse affect on asset quality and result in higher non-performing loans and charge-offs.

The Company will continue to monitor and modify its allowances for loan losses as conditions dictate. While management believes the Company's allowance for loan losses was sufficient to absorb losses inherent in its loan portfolio at September 30, 2003, no assurances can be given that the Company's level of allowance for loan losses will be sufficient to cover future loan losses incurred by the Company or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

MARKET RISK AND MANAGEMENT OF INTEREST-RATE RISK

The principal market risk affecting the Company is interest-rate risk. The principal objective of the Company's interest rate risk management function is to evaluate the interest rate risk included in certain balance sheet accounts, determine the level of risk appropriate given the Company's business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with Board of Directors' approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes in interest rates. The Company monitors its interest rate risk as such risk relates to its operating strategies. The Company's Board of Directors has established an Asset/Liability Committee, responsible for reviewing its asset/liability policies and interest rate risk position, which meets on a monthly basis and reports trends and interest rate risk position to the Board of Directors on a quarterly basis. The extent of the movement of interest rates is an uncertainty that could have a negative impact on the earnings of the Company.

The Company has primarily utilized the following strategies to manage interest rate risk: (1) the origination and retention of certain adjustable-rate and shorter-term (generally 15 years or less) fixed-rate, one-to-four family mortgage loans; (2) selling mortgage loans originated for sale in the secondary market with either servicing rights retained or servicing rights released; and (3) investing primarily in adjustable-rate mortgage-backed securities and short-term fixed-rate CMOs. In conjunction with its mortgage banking activities, the Company uses forward contracts in order to reduce exposure to interest-rate risk. The Company obtains commitments from investors on a loan-by-loan basis for mortgage loans sold with servicing rights released. The amount of forward coverage of the "pipeline" of mortgages is managed on a day-to-day basis, within Board approved policy guidelines, based on the Company's assessment of the general direction of interest rates and levels of mortgage origination activity. In addition, the Company has engaged in interest rate swap agreements, from time to time, to synthetically lengthen its liability maturities.



The Company's interest rate risk is monitored by management through the use of a model that generates estimates of the change in the Company's net interest income and net portfolio value ("NPV") over a range of interest rate scenarios.

NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the estimated market value of assets in the same scenario. The OTS produces a similar analysis for the Bank using its own model, based upon data submitted in the Bank's quarterly Thrift Financial Report, the results of which may vary from the Company's internal model primarily due to differences in assumptions utilized between the Company's internal model and the OTS model, including estimated loan prepayment rates, reinvestment rates and deposit renewal rates.

The following table sets forth the Company's estimated NPV and NPV ratios as of September 30, 2003 and March 31, 2003, as calculated by the Company.

| | SEPTEMBER 30, 2003 | | | MARCH 31, 2003 | | |
|---|---|---|---|---|---|---|
| CHANGE IN INTEREST RATES IN BASIS POINTS | ESTIMATED NET PORTFOLIO VALUE | NPV RATIO | NPV SENSITIVITY IN BASIS POINTS | ESTIMATED NET PORTFOLIO VALUE | NPV RATIO | NPV SENSITIVITY IN BASIS POINTS |
| | | | (DOLLARS IN THOUSANDS) | | | |
| 300 | $128,783 | 5.37% | (114) | $179,199 | 7.57% | 123 |
| 200 | 143,798 | 5.88 | (63) | 181,195 | 7.54 | 120 |
| 100 | 155,181 | 6.23 | (29) | 172,562 | 7.09 | 75 |
| Unchanged | 165,267 | 6.52 | -- | 155,172 | 6.34 | -- |

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV model presented incorporates an assumption that the composition of the Company's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, and that a particular change in interest rates is reflected uniformly across the yield curve regardless of the term to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of the Company's interest rate risk exposure at a particular point in time, such measurements are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, FHLB advances, and other borrowings. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are influenced by general interest rates, economic conditions and competition. The Bank expects to use deposits, FHLB advances and other borrowings, and retained earnings to fund asset growth in the future, depending on market conditions, the pricing of deposit products, and the pricing of FHLB advances and other borrowings.

The Bank's most liquid assets are cash, short-term investments, mortgage loans held for sale, investment securities available for sale, and mortgage-backed securities available for sale. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. At September 30, 2003, cash, short-term investments, mortgage loans held for sale, investment securities available for sale, and mortgage-backed securities available for sale totaled $937.7 million, or 37.3% of total assets.

The Bank has other sources of liquidity if a need for additional funds arises, including a $25.0 million FHLB secured line of credit, FHLB advances, and other borrowings. At September 30, 2003, the Bank had $698.0 million in advances outstanding from the FHLB and other borrowings, and an additional borrowing capacity from the FHLB of $128.7 million including the $25.0 million line of credit. At September 30, 2003, the portfolio of putable FHLB advances and putable reverse repurchase agreements totaled $432.5 million, with an average effective interest rate of 4.30%, and an average life to maturity and estimated average life of 5.9 years. The estimated average life calculated by the Bank may or may not mirror the counter-party's actual decision to exercise its option to terminate the advances. The FHLB is required by regulation to offer replacement funding to the Bank if the FHLB terminates a putable advance prior to the maturity date of the advance, provided that the Bank is able to satisfy the FHLB's normal credit and collateral requirements. Such replacement funding would be for the remaining maturity of the putable advance, and at a market interest rate or a predetermined interest rate agreed upon between the Bank and the FHLB.

At September 30, 2003, Capital Trust II had $10.0 million of 11.695% trust preferred securities outstanding, with an average interest cost of 10.29%, that mature in July 2030 unless the Company elects and obtains regulatory approval to accelerate the maturity date to as early as July 2010.



At September 30, 2003, the Bank had commitments to originate loans and unused outstanding lines of credit and undistributed balances of construction loans totaling $547.8 million. The Bank anticipates that it will have sufficient funds available to meet its current loan origination commitments. Certificate of deposit accounts scheduled to mature in less than one year from September 30, 2003 totaled $430.7 million. Based on its prior experience and other factors, the Bank currently expects that it will retain a majority of maturing certificate accounts.

At September 30, 2003, the consolidated capital to total assets ratio of the Company was 7.90%. The Company paid a cash dividend of $0.10 per share and $0.13 per share to stockholders during the first and second quarters, respectively, of fiscal year 2004, and announced the declaration of a quarterly cash dividend of $0.13 per share to stockholders for payment during the third quarter of fiscal year 2004. The Company's primary source of funding for dividends, and payments for periodic stock repurchases, has been dividends from the Bank and proceeds from exercises of employee stock options. The Bank's ability to pay dividends and other capital distributions to the Company is generally limited by OTS regulations.

As of September 30, 2003, the Company had repurchased 360,616 shares of Company stock at an average price of $7.09 per share, or 56% of the 640,056 shares authorized for repurchase under the Company's seventh stock repurchase program announced on September 29, 2000. There was no stock repurchase activity during the first six months of fiscal year 2004. The Company has repurchased 4,973,806 shares since May 15, 1998.

At September 30, 2003, the Bank exceeded all of its regulatory capital requirements. The Bank's Tier 1 core capital of $155.1 million, or 6.33% of total adjusted assets, was above the required level of $98.1 million, or 4.0%; risk-based capital of $167.5 million, or 11.35% of risk-weighted assets, was above the required level of $118.1 million or 8.0%, and Tier 1 risk-based capital of $155.1 million, or 10.18% of risk-weighted assets, was above the required level of $59.0 million or 4.0%. The Bank also continued to exceed the regulatory capital requirements for designation as a "well capitalized" institution under the OTS prompt corrective action regulations of 5.0% for Tier 1 core capital, 10.0% for risk-based capital and 6% for Tier 1 risk-based capital. The Trust Company is subject to similar regulatory capital requirements, and exceeded all of its capital requirements at September 30, 2003.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See the Section of Item 2 captioned, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Market Risk and Management of Interest-Rate Risk" for quantitative and qualitative information about market risk and its potential effect on the Company.

ITEM 4. CONTROLS AND PROCEDURES.

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Company's internal control over financial reporting occurred during the quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In the normal course of the Company's business, there are various outstanding legal proceedings. In the opinion of management, based on consultation with legal counsel, the financial position of the Company will not be affected materially as a result of the outcome of such legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Not Applicable.



ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The annual meeting of stockholders was held July 31, 2003. The following proposals were voted on by the stockholders:

| | PROPOSAL | FOR | AGAINST | WITHHELD/ ABSTAIN | BROKER NON-VOTES |
|---|---|---|---|---|---|
| 1) | Election of Directors: | | | | |
| | Richard W. Cederberg | 14,472,574 | -- | 112,534 | -- |
| | Thomas A. Rodgers, Jr. | 14,336,612 | -- | 248,496 | -- |
| | Anthony L. Sylvia | 14,471,484 | -- | 113,624 | -- |
| 2) | Ratification of KPMG LLP as independent auditors of the Company for the fiscal year ending March 31, 2004 | 14,482,350 | 91,032 | 11,726 | -- |

The Directors whose terms continued and the years their terms expire are as follows: Robert F. Stoico (2004), B. Benjamin Cavallo (2005), John S. Holden, Jr. (2005), Gilbert C. Oliveira (2005) and Paul A. Raymond, DDS (2005).

ITEM 5. OTHER INFORMATION.

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

a) Exhibits

2.1 Agreement and Plan of Merger by and among Webster Financial Corporation and FIRSTFED AMERICA BANCORP, INC. (1)

3.1 Certificate of Incorporation of FIRSTFED AMERICA BANCORP, INC. (2)

3.2 Bylaws of FIRSTFED AMERICA BANCORP, INC. (3)

4.0 Stock Certificate of FIRSTFED AMERICA BANCORP, INC. (2)

31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.1 Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

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(1) Incorporated by reference into this document from the Exhibit to the Form 8-K filed by Webster Financial Corporation (Commission File Number 001-31486) on November 4, 2003.

(2) Incorporated by reference into this document from the Exhibits to Form S-1, Registration Statement, and any amendments thereto, filed on September 27, 1996, Registration No. 333-12855.

(3) Incorporated by reference into this document from the Exhibits to the Annual Report on Form 10-K for the fiscal year ended March 31, 2002.

b) Reports on Form 8-K

A current report on Form 8-K was filed on July 23, 2003, attaching a press release announcing the Company's financial results for the quarter ended June 30, 2003.

A current report on Form 8-K was filed on July 31, 2003, attaching a press release announcing the results of the Company's July 31, 2003 annual meeting of shareholders and the availability of an investor presentation on the Company's website.



SIGNATURES

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

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| | FIRSTFED AMERICA BANCORP, INC. |
| | Registrant |
| Date: November 12, 2003 | /s/ Robert F. Stoico<br>Robert F. Stoico<br>Chairman of the Board, President and<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: November 12, 2003 | /s/ Edward A. Hjerpe, III<br>Edward A. Hjerpe, III<br>Executive Vice President, Chief Operating<br>Officer and Chief Financial Officer<br>(Principal Accounting and Financial Officer) |