FIRSTFED AMERICA BANCORP INC
Form 10-Q
August 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 JUNE 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 August 5, 2003, there were 17,379,468 shares of the Registrant's Common Stock outstanding.

FIRSTFED AMERICA BANCORP, INC.

INDEX TO FORM 10-Q

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

| | JUNE 30, 2003 | MARC 20 |
|---|---|---|
| ASSETS | | |
| Cash on hand and due from banks | $ 57,939 | $ |
| Short-term investments | -- | |

| | | |
|---|---|---|
| Total cash and cash equivalents | 57,939 | |
| Mortgage loans held for sale | 309,237 | 2 |
| Investment securities available for sale, at fair value (amortized cost of $16,710 and $16,659) | 23,214 | |
| Mortgage-backed securities available for sale, at fair value (amortized cost of $685,713 and $623,841) | 694,081 | 6 |
| Mortgage-backed securities held to maturity (fair value of $932 and $956) | 905 | |
| Stock in Federal Home Loan Bank of Boston, at cost | 58,433 | |
| Loans receivable | | |
| Residential mortgages | 698,347 | 6 |
| Commercial real estate mortgages | 157,964 | 1 |
| Construction and land mortgages | 44,510 | |
| Commercial | 295,015 | 2 |
| Consumer | 202,517 | 1 |
| Allowance for loan losses | (19,521) | ( |
| Loans receivable, net | 1,378,832 | 1,2 |
| Accrued interest receivable | 8,034 | |
| Mortgage servicing rights, net of valuation allowance of $3,263 and $3,095 | 5,178 | |
| Office properties and equipment, net | 37,984 | |
| Bank-owned life insurance | 37,957 | |
| Goodwill and other intangible assets | 53,106 | |
| Prepaid expenses and other assets | 15,626 | |
| Total assets | $ 2,680,526 | $ 2,4 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Liabilities: | | |
| Deposits | | |
| Demand | $ 656,201 | $ 5 |
| Savings | 313,666 | 2 |
| Time | 558,657 | 5 |
| Total deposits | 1,528,524 | 1,4 |
| FHLB advances and other borrowings | 873,038 | 7 |
| Company obligated, mandatorily redeemable securities | 11,278 | |
| Advance payments by borrowers for taxes and insurance | 6,901 | |
| Accrued interest payable | 3,857 | |
| Other liabilities | 57,541 | |
| Total liabilities | 2,481,139 | 2,2 |
| Stockholders' equity: | | |
| Common stock | 219 | |
| Additional paid-in capital | 127,884 | 1 |
| Retained earnings | 101,630 | |
| Accumulated other comprehensive income | 8,868 | |
| Unallocated ESOP shares | (1,549) | |
| Unearned 1997 stock-based incentive plan | (39) | |
| Treasury stock | (37,626) | ( |
| Total stockholders' equity | 199,387 | 1 |
| Total liabilities and stockholders' equity | $ 2,680,526 | $ 2,4 |

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 JUNE 30, 2003 | 2002 |
|---|---|---|
| Interest and dividend income: | | |
| Loans | $ 22,080 | $ 20,868 |
| Mortgage-backed securities | 6,317 | 8,929 |
| Investment securities | 308 | 1,345 |
| Federal Home Loan Bank stock | 459 | 546 |
| Total interest and dividend income | 29,164 | 31,688 |
| Interest expense: | | |
| Deposits | 5,838 | 7,567 |
| Borrowed funds | 8,431 | 10,517 |
| Total interest expense | 14,269 | 18,084 |
| Net interest income before provision for loan losses | 14,895 | 13,604 |
| Provision for loan losses | 250 | 100 |
| Net interest income after provision for loan losses | 14,645 | 13,504 |
| Non-interest income: | | |
| Service charges on deposit accounts | 858 | 673 |
| Trust fee income | 371 | 361 |
| Loan servicing (expense) income | (1,105) | 46 |
| Insurance commission income | 300 | 209 |
| Earnings on bank-owned life insurance | 444 | 483 |
| Gain on sale of mortgage loans, net | 9,698 | 4,253 |
| Gain on sale of investments securities available for sale | 1,712 | 1,531 |
| Other income | 1,079 | 637 |
| Total non-interest income | 13,357 | 8,193 |
| Non-interest expense: | | |
| Compensation and employee benefits | 10,734 | 8,409 |
| Office occupancy and equipment | 2,192 | 1,964 |
| Data processing | 625 | 953 |
| Advertising and business promotion | 423 | 192 |
| Amortization of intangible assets | 553 | 607 |
| Other expense | 3,044 | 2,371 |
| Total non-interest expense | 17,571 | 14,496 |
| Income before income tax expense | 10,431 | 7,201 |
| Income tax expense | 4,172 | 2,767 |
| Net income | $ 6,259 | $ 4,434 |

| | | |
|---|---|---|
| Basic EPS | $ 0.37 | $ 0.28 |
| Diluted EPS | $ 0.36 | $ 0.27 |
| Weighted average shares outstanding -- basic | 16,795 | 15,578 |
| Weighted average shares outstanding -- diluted | 17,332 | 16,154 |

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 THREE MONTHS ENDED JUNE 30, 2003
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) |
|---|---|---|---|---|
| Balance at March 31, 2003 | $ 216 | $ 125,198 | $ 97,100 | $9,777 |
| Earned SIP stock awards | -- | (5) | -- | -- |
| Earned ESOP shares charged to expense | -- | 399 | -- | -- |
| Stock options exercised | 3 | 2,292 | -- | -- |
| Cash dividends declared and paid (1st quarter at $0.10 per share) | -- | -- | (1,729) | -- |
| Common stock acquired for certain employee benefit plans (5,396 shares at an average price of $14.85 per share) | -- | -- | -- | -- |
| Comprehensive income: | | | | |
| Net income | -- | -- | 6,259 | -- |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized holding losses on available for sale securities, net of taxes of ($371) | -- | -- | -- | (239) |
| Reclassification adjustment for gains included in net income, net of taxes of $1,042 | -- | -- | -- | (670) |
| Net unrealized losses | -- | -- | -- | (909) |
| Total comprehensive income | -- | -- | -- | -- |
| Balance at June 30, 2003 | $ 219 | $ 127,884 | $101,630 | $8,868 |

UNEARNED
1997

| | UNALLOCATED ESOP SHARES | STOCK-BASED INCENTIVE PLAN (SIP) SHARES | TREASURY STOCK | TOTAL STOCKHOLDE EQUITY |
|---|---|---|---|---|
| Balance at March 31, 2003 .................... | $(1,549) | $(112) | $ (37,546) | $193,084 |
| Earned SIP stock awards .................... | -- | 73 | -- | 68 |
| Earned ESOP shares charged to expense ...... | -- | -- | -- | 399 |
| Stock options exercised .................... | -- | -- | -- | 2,295 |
| Cash dividends declared and paid (1st quarter at $0.10 per share) ....... | -- | -- | -- | (1,729 |
| Common stock acquired for certain employee benefit plans (5,396 shares at an average price of $14.85 per share).... | -- | -- | (80) | (80 |
| Comprehensive income: | | | | |
| Net income ............................. | -- | -- | -- | 6,259 |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized holding losses on available for sale securities, net of taxes of ($371) ........... | -- | -- | -- | -- |
| Reclassification adjustment for gains included in net income, net of taxes of $1,042 ........... | -- | -- | -- | -- |
| Net unrealized losses ............... | -- | -- | -- | (909 |
| Total comprehensive income ........ | -- | -- | -- | 5,350 |
| Balance at June 30, 2003 .................. | $(1,549) | $ (39) | $ (37,626) | $199,387 |

See accompanying notes to consolidated financial statements.

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

| | FOR THE THREE MONT ENDED JUNE 30, 2003 | 200 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income ........................................................ | $ 6,259 | $ |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Amortization (accretion) of: | | |
| Discounts, net ............................................. | (640) | |
| Deferred loan origination costs ............................. | 364 | |
| Mortgage servicing rights ................................... | 729 | |
| Intangible assets ........................................... | 553 | |
| Provision for loan losses ........................................ | 250 | |

| | | |
|---|---|---|
| Provision for estimated impairment on mortgage servicing rights ... | 1,359 | |
| (Gains) losses on sales of: | | |
| Mortgage loans ................................................ | (9,698) | ( |
| Investment and mortgage-backed securities available-for-sale ... | (1,712) | ( |
| Office property and equipment ................................ | 4 | |
| Net proceeds from sales of mortgage loans ........................ | 857,909 | 41 |
| Origination of mortgage loans held for sale ...................... | (912,522) | (40 |
| Income from bank-owned life insurance ............................ | (444) | |
| Depreciation of office properties and equipment .................. | 1,099 | |
| Appreciation in fair value of ESOP shares ........................ | 399 | |
| Earned SIP shares ................................................ | 68 | |
| Increase or decrease in: | | |
| Accrued interest receivable .................................. | (446) | |
| Other assets ................................................. | (2,907) | ( |
| Accrued interest payable ..................................... | 250 | |
| Other liabilities ............................................ | (3,588) | 1 |
| Net cash (used in) provided by operating activities ........... | (62,714) | 1 |
| Cash flows from investing activities: | | |
| Purchase of investment securities available for sale .................. | (1,292) | |
| Purchase of mortgage-backed securities available for sale ............. | (235,672) | (26 |
| Payments received on mortgage-backed securities ....................... | 97,489 | 5 |
| Proceeds from sale of investments securities available for sale ....... | -- | 4 |
| Proceeds from sale of mortgage-backed securities available for sale ... | 77,772 | |
| Maturities of investment securities available for sale ............... | 1,248 | |
| Net increase in loans ................................................. | (138,400) | ( |
| Proceeds from sale of office equipment ................................ | -- | |
| Purchases of office properties and equipment .......................... | (789) | ( |
| Net cash used in investing activities ......................... | (199,644) | (16 |
| Cash flows from financing activities: | | |
| Net increase in deposits .............................................. | 101,503 | |
| Proceeds from FHLB advances and other borrowings ...................... | 2,387,140 | 57 |
| Repayments on FHLB advances and other borrowings ...................... | (2,225,288) | (48 |
| Net change in advance payments by borrowers for taxes and insurance ... | 927 | |
| Cash dividends paid ................................................... | (1,729) | ( |
| Payments to acquire common stock and stock issuance costs ............ | (80) | |
| Stock options exercised ............................................... | 2,295 | |
| Net cash provided by financing activities ..................... | 264,768 | 9 |
| Net increase (decrease) in cash and cash equivalents ................... | 2,410 | (6 |
| Cash and cash equivalents at beginning of period ....................... | 55,529 | 14 |
| Cash and cash equivalents at end of period ............................. | $ 57,939 | $ 8 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest ............................................................ | $ 14,019 | $ 1 |
| Income taxes ........................................................ | $ 4,511 | $ |

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 three months ended June 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 distributed on July 17, 2003 to shareholders of record as of July 7, 2003. In the accompanying unaudited consolidated financial statements and in Management's Discussion and Analysis of Financial Condition and Results of Operation, 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 three months ended June 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 | -- | (488) | (65) | (553) |
| Impairment recognized | -- | -- | -- | -- |
| Balance at June 30, 2003 | $43,825 | $ 9,108 | $ 173 | $ 9,281 |

| | | | | |
|---|---|---|---|---|
| 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 |

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

| | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | NET CARRYING AMOUNT |
|---|---|---|---|
| Core deposit intangible asset | $11,926 | $2,818 | $9,108 |
| Non-compete intangible asset | 520 | 347 | 173 |
| | $12,446 | $3,165 | $9,281 |

(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 under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," 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 JUNE 30, | |
|---|---|---|
| | 2003 | 2002 |
| Net income as reported | $6,259 | $4,434 |
| Pro forma net income | 6,132 | 4,326 |
| Basic earning per share as reported | 0.37 | 0.28 |
| Diluted earnings per share as reported | 0.36 | 0.27 |
| Pro forma basic earnings per share | 0.37 | 0.28 |
| Pro forma diluted earnings per share | 0.35 | 0.27 |

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) IMPACT OF RECENT ACCOUNTING STANDARDS

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 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 clarifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires an issuer to clarify a financial instrument within the scope of the statement as a liability if the financial instrument embodies an obligation of the issuer. SFAS No. 150 is effective for financial instruments entered into on or modified after May 31, 2003, and is effective for the interim period beginning after June 30, 2003 for financial instruments existing before May 31, 2003. The effect of adoption of SFAS No. 150 is to be reported as a cumulative effect of change in accounting principle. The Company does not believe the adoption of SFAS No. 150 will 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 $1.8 million, or 41%, to $6.3 million for the first quarter of fiscal year 2004 from $4.4 million for the first quarter of fiscal year 2003. Diluted earnings per share ("EPS") increased 33% to $0.36 for the first quarter of fiscal year 2004 from $0.27 per share for the first quarter of fiscal year 2003. Income before income tax expense increased $3.2 million, or 45%, to $10.4 million, the net result of increases in net interest income after provision for loan losses of $1.1 million, non-interest income of $5.2 million, and non-interest expense of $3.1 million.

Return on average stockholders' equity increased to 12.86% for the first quarter of fiscal year 2004 compared to 11.77% for the first quarter of fiscal year 2003. Return on average assets increased to 1.01% for the first quarter of fiscal year 2004 compared to 0.78% for the first quarter of fiscal year 2003.



### NET INTEREST INCOME

Net interest income before provision for loan losses increased $1.3 million, or 9%, to $14.9 million for the first quarter of fiscal year 2004 from $13.6 million for the first quarter of fiscal year 2003. The net interest rate spread and net interest margin were 2.31% and 2.60%, respectively, for the first quarter of fiscal year 2004, compared to 2.45% and 2.66%, respectively, for the first quarter of fiscal year 2003. The increase in net interest income was due primarily to growth in interest-earning assets, particularly loans receivable, net, and mortgage loans held for sale, as funded by interest-bearing and noninterest-bearing liabilities, particularly demand and savings 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 | | | |
|---|---|---|---|---|
| | 2003 | | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST | AVERAG BALANC |
| | | | (DOLLARS IN THOUSANDS | |
| Assets: | | | | |
| Interest-earning assets: | | | | |
| Loans receivable, net and mortgage loans held for sale (1) | $1,579,963 | $22,080 | 5.59% | $1,206,9 |
| Investment securities (2) | 91,633 | 767 | 3.36 | 243,2 |
| Mortgage-backed securities (3) | 629,181 | 6,317 | 4.02 | 603,7 |
| Total interest-earning assets | 2,300,777 | 29,164 | 5.07 | 2,053,9 |
| Noninterest-earning assets | 191,107 | | | 221,7 |
| Total assets | $2,491,884 | | | $2,275,6 |
| Liabilities and Stockholders' Equity: | | | | |
| Interest-bearing liabilities: | | | | |
| Deposits (4) | $1,294,376 | 5,838 | 1.81 | $1,171,7 |
| FHLB advances and other borrowings | 779,023 | 8,431 | 4.34 | 780,4 |
| Total interest-bearing liabilities | 2,073,399 | 14,269 | 2.76 | 1,952,1 |
| Noninterest-bearing liabilities (5) | 223,267 | | | 172,4 |
| Total liabilities | 2,296,666 | | | 2,124,5 |
| Stockholders' equity | 195,218 | | | 151,1 |
| Total liabilities and stockholders' | | | | |

| | | | | |
|---|---|---|---|---|
| equity | $2,491,884 | | | $2,275,6 |
| Net interest rate spread (6) | | $14,895 | 2.31% | |
| Net interest margin (7) | | | 2.60% | |
| Ratio of interest-earning assets to interest-bearing liabilities | 110.97% | | | 105. |

-----------

(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 $250,000 for the first quarter of fiscal year 2004 compared to $100,000 for the first quarter of fiscal year 2003. This increase was based primarily on management's assessment of several key factors, including portfolio growth and composition changes, 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 $5.2 million, or 63%, to $13.4 million for the first quarter of fiscal year 2004 from $8.2 million for the first quarter of fiscal year 2003. This increase was due primarily to increases of $5.4 million in gain on sale of mortgage loans, $181,000 in gain on sale of securities available for sale, $185,000 in service charges on deposit accounts and $442,000 in other non-interest income, partially offset by a decrease of $1.2 million in loan servicing income.

The increase in gain on sale of mortgage loans was due primarily to a higher volume of loans originated for sale during the first quarter of fiscal year 2004. In addition, changes in fair value of derivative instruments utilized in secondary market hedging activities, as required by SFAS No. 133, resulted in an addition to gain on sale of mortgage loans of $833,000 for the first quarter of fiscal year 2004 compared to a reduction of $107,000 for the first quarter of fiscal year 2003. The increase in service charges on deposit accounts was due primarily to growth in deposits. The increase in other non-interest income was due primarily to a net increase in investment portfolio values of certain employee benefit plans, which is offset by a related increase in other non-interest expense.

The decrease in loan servicing income was due primarily to additions to the valuation allowance for mortgage servicing rights of $1.4 million during the first quarter of fiscal year 2004, compared to $212,000 during the first quarter of fiscal year 2003. The additions to the valuation allowance were based on estimated impairment due to a combination of faster than previously expected actual payoff experience and faster prepayment forecasts for the applicable periods. Amortization of mortgage servicing rights totaled $729,000 and $787,000 for the first quarters of fiscal year 2004 and 2003, respectively.

NON-INTEREST EXPENSE

Non-interest expense increased $3.1 million, or 21%, to $17.6 million for the first quarter of fiscal year 2004 from $14.5 million for the first quarter of fiscal year 2003. This increase was due primarily to increases of $2.3 million in compensation and benefits, $231,000 in advertising and promotion expenses, $228,000 in office occupancy and equipment expenses, and $673,000 in other non-interest expenses, partially offset by a decrease of $328,000 in data processing costs.

The increase in compensation and benefits was 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. The increase in advertising and promotion expenses was due primarily to an expansion of advertising campaigns. The increase in office occupancy and equipment expenses was due primarily to increases in asset depreciation and building repairs and maintenance costs. The decrease in data processing costs was due primarily to acquisition and system conversion costs incurred in the first quarter of fiscal year 2003.

INCOME TAXES

Income tax expense increased $1.4 million, or 51%, to $4.2 million for the first quarter of fiscal year 2004 from $2.8 million for the first quarter of fiscal year 2003. The Company's effective tax rate increased to 40.0% for the first quarter of fiscal year 2004 from 38.4% for the first quarter of fiscal year 2003, due primarily to the effects of increased state taxes.

## FINANCIAL CONDITION

OVERVIEW

Total assets increased $266.0 million, or 11%, to a record $2.681 billion at June 30, 2003 from $2.414 billion at March 31, 2003. This growth was due primarily to increases of $137.5 million in loans receivable, net, $63.5 million in mortgage loans held for sale, and $59.1 million in mortgage-backed securities available for sale. The net increase in mortgage-backed securities was due primarily to purchases of mortgage-backed securities available for sale totaling $235.7 million, partially offset by sales totaling $77.8 million and payments received of $97.5 million.

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:

| | JUNE 30, 2003 | | MARCH 31, 2003 | |
|---|---|---|---|---|
| | AMOUNT | PERCENT OF TOTAL | AMOUNT | PERCENT OF TOTAL |
| | (DOLLARS IN THOUSANDS) | | | |
| Mortgage Loans: | | | | |
| Residential | $ 693,529 | 49.17% | $ 601,063 | 47.21% |
| Commercial real estate | 157,964 | 11.20 | 142,974 | 11.23 |
| Construction and land | 62,410 | 4.43 | 61,698 | 4.85 |
| Total mortgage loans | 913,903 | 64.80 | 805,735 | 63.29 |
| Commercial Loans | 295,129 | 20.92 | 283,137 | 22.24 |
| Consumer Loans: | | | | |
| Home equity lines | 159,976 | 11.34 | 140,189 | 11.01 |
| Second mortgages | 30,854 | 2.19 | 32,914 | 2.58 |
| Other consumer loans | 10,567 | 0.75 | 11,158 | 0.88 |
| Total consumer loans | 201,397 | 14.28 | 184,261 | 14.47 |
| Total loans receivable | 1,410,429 | 100.00% | 1,273,133 | 100.00% |
| Less: | | | | |
| Allowance for loan losses | (19,521) | | (19,335) | |
| Undisbursed proceeds of construction mortgages in process | (17,900) | | (17,752) | |
| Purchase premium on loans, net | 3,092 | | 3,377 | |
| Deferred loan origination costs, net | 2,732 | | 1,908 | |
| Loans receivable, net | $1,378,832 | | $1,241,331 | |

Mortgage loan originations totaled $1.148 billion for the first quarter of fiscal year 2004, including $912.5 million originated for sale of which $800.5 million were originated by PMC. During this time, $842.2 million of mortgage loans were sold in the secondary market, including $678.1 million sold servicing released by PMC.

Mortgage loans sold to others and serviced by the Bank on a fee basis under various agreements decreased $120.5 million, or 9%, to $1.292 billion at June 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, decreased $793,000, or 13%, to $5.2 million at June 30, 2003, from $6.0 million at March 31, 2003. The valuation allowance related to the impairment of mortgage servicing rights increased $168,000 to $3.3 million at June 30, 2003, from $3.1 million at March 31, 2003, due to additions of $1.4 million for estimated impairment, less write-downs of $1.2 million for permanent impairment during the first quarter of fiscal year 2004. Mortgage servicing rights were 0.40% of loans serviced for others at June 30, 2003, compared to 0.42% at March 31, 2003.

Balance sheet growth during the first quarter of fiscal year 2004 was primarily funded by increases of $160.8 million in FHLB advances and other borrowings and $101.4 million in deposit balances. The 7% increase in deposits, to $1.529 billion at June 30, 2003, included increases in demand deposits of $82.9 million, or 14%, and savings deposits of $26.9 million, or 9%, partially offset by a decrease in time deposits of $8.4 million, or 1%. The Company's demand and savings accounts, or core deposits, were 63.5% of total deposits at June 30, 2003 compared to 60.3% at March 31, 2003.

Total stockholders' equity increased $6.3 million, or 3%, to $199.4 million at June 30, 2003, from $193.1 million at March 31, 2003. The increase was due primarily to $6.3 million in net income and a $2.3 million increase from common shares issued for stock options exercised, partially offset by $1.7 million in dividends paid to stockholders and a $909,000 decrease in the fair market value of available for sale securities, net of tax. Stockholders' equity to assets was 7.44% at June 30, 2003, compared to 8.00% at March 31, 2003. Book value per share increased to $11.80 at June 30, 2003 from $11.63 at March 31, 2003. Tangible book value per share increased to $8.66 at June 30, 2003 from $8.40 at March 31, 2003.

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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 $56,000 for the three months ended June 30, 2003 and $19,000 for the three months ended June 30, 2002.

| | JUNE 30, 2003 | MARCH 31, 2003 |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| Non-accrual loans: | | |
| Mortgage loans: | | |
| One-to-four family | $ 957 | $1,699 |
| Commercial real estate | 108 | 96 |
| Total mortgage loans | 1,065 | 1,795 |
| Commercial loans | 586 | 1,388 |
| Consumer loans: | | |
| Home equity lines | 151 | -- |
| Second mortgages | 105 | 107 |
| Other consumer loans | 9 | 15 |
| Total consumer loans | 265 | 122 |
| Total non-accrual loans | 1,916 | 3,305 |
| REO, net (1) | 194 | 194 |
| Total non-performing assets | $2,110 | $3,499 |

| | | |
|---|---|---|
| | ====== | ====== |
| Allowance for loan losses as a percent of loans (2) ............... | 1.40% | 1.53% |
| Allowance for loan losses as a percent of non-performing loans (3).. | 1,019% | 585% |
| Non-accrual loans as a percent of loans (2)(3) .................... | 0.14% | 0.26% |
| Non-performing assets as a percent of total assets ................ | 0.08% | 0.14% |

------------------

(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 $1.4 million in non-performing assets during the first three months of fiscal year 2004 was due primarily to declines of $742,000 in one-to-four family mortgage loans and $802,000 in 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 make additional provisions for estimated loan losses based upon judgments different from those of management.

The allowance for loan losses totaled $19.5 million at June 30, 2003, an increase of $186,000, or 1%, as 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:

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| | FOR THE THREE MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN THOUSANDS) | |
| Balance at beginning of period ....... | $ 19,335 | $ 19,237 |
| Provision for loan losses ........... | 250 | 100 |
| | -------- | -------- |
| Charge-offs: | | |
| One-to-four family mortgage loans.. | (63) | (10) |
| Commercial loans ................. | -- | (86) |

| | | |
|---|---|---|
| Consumer Loans: | | |
| Home equity lines ............. | (11) | (9) |
| Second mortgages ............... | -- | -- |
| Other consumer ................ | (14) | (19) |
| Total .................. | (88) | (124) |
| Recoveries .......................... | 24 | 2 |
| Balance at end of period ............ | $ 19,521 | $ 19,215 |
| Ratio of net charge-offs during the period to average loans outstanding during the period ........ | 0.02% | 0.04% |

Management was influenced by several key factors as a basis for the level of the Company's provisions for loan losses, which resulted in increases in 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 June 30, 2003 as compared to June 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 rising 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 June 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 June 30, 2003 and March 31, 2003, as calculated by the Company.

| | JUNE 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 | $153,267 | 5.95% | (39) | $179,199 | 7.57% | 123 |
| 200 | 169,314 | 6.44 | 10 | 181,195 | 7.54 | 120 |
| 100 | 176,321 | 6.58 | 24 | 172,562 | 7.09 | 75 |
| Unchanged | 172,129 | 6.34 | -- | 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 June 30, 2003, cash, short-term investments, mortgage loans held for sale, investment securities available for sale, and mortgage-backed securities available for sale totaled $1.084 billion, or 40.5% 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 June 30, 2003, the Bank had $863.0 million in advances outstanding from the FHLB and other borrowings, and an additional borrowing capacity from the FHLB of $212.2 million including the $25.0 million line of credit. At June 30, 2003, the portfolio of putable FHLB advances and putable reverse repurchase agreements totaled $407.5 million, with an average effective interest rate of 4.50%, and an average life to maturity and estimated average life of 6.4 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 June 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 June 30, 2003, the Bank had commitments to originate loans and unused outstanding lines of credit and undistributed balances of construction loans totaling $717.2 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 June 30, 2003 totaled $385.7 million. Based on its prior experience and other factors, the

Bank currently expects that it will retain a majority of maturing certificate accounts.

The Company continues to consider sites for new banking and insurance offices and loan origination centers in or adjacent to its market area. In addition, the Company may, from time to time, consider expanding its market share and/or market area through the acquisition of assets or other banking institutions and may consider acquisitions of other types of financial services companies. The establishment of additional banking and insurance offices, loan origination centers, trust service operations, mergers and acquisitions, and additional capital management strategies by the Company would result in additional capital expenditures and other associated costs which the Company has not yet estimated.

At June 30, 2003, the consolidated capital to total assets ratio of the Company was 7.44%. The Company paid a cash dividend $0.10 per share to stockholders during the first quarter of fiscal year 2004, and announced the declaration of a quarterly cash dividend of $0.13 per share to stockholders for payment during the second 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. The Bank's ability to pay dividends and other capital distributions to the Company is generally limited by OTS regulations.

As of June 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 quarter of fiscal year 2004. The Company has repurchased 4,973,806 shares since May 15, 1998.

At June 30, 2003, the Bank exceeded all of its regulatory capital requirements. The Bank's Tier 1 core capital of $147.7 million, or 5.66% of total adjusted assets, was above the required level of $104.4 million, or 4.0%; risk-based capital of $160.2 million, or 10.58% of risk-weighted assets, was above the required level of $121.1 million or 8.0%, and Tier 1 risk-based capital of $147.7 million, or 9.41% of risk-weighted assets, was above the required level of $60.6 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 June 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.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluates the effectiveness of the design and operation of its disclosure controls and procedures. Based on an evaluation of such controls and procedures within 90 days of the filing date of this quarterly report, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. The Company made no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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.

Not Applicable.

ITEM 5. OTHER INFORMATION.

Not Applicable.

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

a) Exhibits

3.1 Certificate of Incorporation of FIRSTFED AMERICA BANCORP, INC. (1)

3.2 Bylaws of FIRSTFED AMERICA BANCORP, INC. (2)

4.0 Stock Certificate of FIRSTFED AMERICA BANCORP, INC. (1)

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 Exhibits to Form S-1, Registration Statement, and any amendments thereto, filed on September 27, 1996, Registration No. 333-12855.

(2) 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 April 15, 2003, attaching a press release announcing the date of the 2003 annual meeting of shareholders.

A current report on Form 8-K was filed on April 25, 2003, attaching a press release announcing the Company's financial results for the quarter and fiscal year ended March 31, 2003.

A current report on Form 8-K was filed on June 27, 2003, attaching a press release announcing a 2-for-1 stock split, payable on July 17, 2003 to record holders as of July 7, 2003.



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.

FIRSTFED AMERICA BANCORP, INC.
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Registrant

Date: August 13, 2003

/s/ Robert F. Stoico
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Robert F. Stoico
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Date: August 13, 2003

/s/ Edward A. Hjerpe III
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Edward A. Hjerpe III
Executive Vice President, Chief Operating
Officer and Chief Financial Officer
(Principal Accounting and Financial Officer)