FIRSTFED AMERICA BANCORP INC
Form 10-Q
February 17, 2004

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 DECEMBER 31, 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 February 5, 2004, there were 18,973,099 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)

	DECEMBER 31 2003
ASSETS	
Cash on hand and due from banks	$ 44,64

Short-term investments	2,11
Total cash and cash equivalents	46,75
Mortgage loans held for sale	57,10
Investment securities available for sale, at fair value (amortized cost of $6,441 and $16,659)	11,71
Mortgage-backed securities available for sale, at fair value (amortized cost of $815,772 and $623,841)	817,74
Mortgage-backed securities held to maturity (fair value of $715 and $956)	71
Stock in Federal Home Loan Bank of Boston, at cost	58,43
Loans receivable	
Residential mortgages	665,27
Commercial real estate mortgages	192,60
Construction and land mortgages	44,53
Commercial	275,76
Consumer	235,95
Allowance for loan losses	(19,36
Loans receivable, net	1,394,78
Accrued interest receivable	8,10
Mortgage servicing rights, net of valuation allowance of $2,074 and $3,095	7,74
Office properties and equipment, net	36,74
Bank-owned life insurance	38,80
Goodwill and other intangible assets	52,00
Prepaid expenses and other assets	25,79
Total assets	$ 2,556,43

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:	
Deposits	
Demand	$ 601,06
Savings	316,07
Time	548,92
Total deposits	1,466,06
FHLB advances and other borrowings	822,06
Advance payments by borrowers for taxes and insurance	4,34
Accrued interest payable	3,65
Other liabilities	31,21
Total liabilities	2,327,34
Stockholders' equity:	
Common stock	23
Additional paid-in capital	154,69
Retained earnings	107,38
Accumulated other comprehensive income	4,62
Unallocated ESOP shares	(1,54
Unearned 1997 stock-based incentive plan	(3
Treasury stock	(36,25
Total stockholders' equity	229,09
Total liabilities and stockholders' equity	$ 2,556,43

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 DECEMBER 31, 2003	2002
Interest and dividend income:		
Loans	$ 19,907	$ 22,477
Mortgage-backed securities	6,449	8,677
Investment securities	167	693
Federal Home Loan Bank stock	405	515
Total interest and dividend income	26,928	32,362
Interest expense:		
Deposits	5,317	6,397
Borrowed funds	7,910	10,275
Total interest expense	13,227	16,672
Net interest income before provision for loan losses	13,701	15,690
Provision for loan losses	275	150
Net interest income after provision for loan losses	13,426	15,540
Non-interest income:		
Service charges on deposit accounts	978	1,311
Trust fee income	430	350
Loan servicing income (expense)	(41)	(834)
Insurance commission income	452	363
Earnings on Bank-Owned Life Insurance	423	484
Gain on sale of mortgage loans, net	5,674	7,569
Gain on sale of investment securities available for sale	5,033	1,057
Other income	1,084	778
Total non-interest income	14,033	11,078
Non-interest expense:		
Compensation and employee benefits	12,267	9,223
Office occupancy and equipment	2,333	2,109
Data processing	716	702
Advertising and business promotion	402	408
Amortization of intangible assets	553	607
Other expense	3,721	2,318
Total non-interest expense	19,992	15,367
Income before income tax expense	7,467	11,251
Income tax expense	2,995	4,325
Net income	$ 4,472	$ 6,926

Basic earnings per share	$ 0.25	$ 0.43
Diluted earnings per share	$ 0.24	$ 0.41
Weighted average shares outstanding - basic	18,051	16,271
Weighted average shares outstanding - diluted	18,254	16,801

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 NINE MONTHS ENDED DECEMBER 31, 2003
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at March 31, 2003........................	$ 216	$125,198	$ 97,100	$ 9,777
Earned SIP stock awards........................	--	(5)	--	--
Earned ESOP shares charged to expense...........	--	1,754	--	--
Stock options exercised, including related tax benefits of $9,601.............	18	24,822	--	--
Cash dividends declared and paid (1st quarter at $0.10 per share; 2nd and 3rd quarters at $0.13 per share)...........	--	--	(6,367)	--
Common stock acquired for certain employee benefit plans (5,396 shares at an average price of $14.85 per share)........	--	--	--	--
Common stock sold for certain employee benefit plans (176,150 shares at an average price of $24.38 per share)...........	--	2,925	--	--
Comprehensive income:				
Net income..................................	--	--	16,654	--
Other comprehensive income (loss), net of tax				
Unrealized holding losses on available for sale securities, net of taxes of ($1,337)................	--	--	--	(1,436)
Reclassification adjustment for gains included in net income, net of taxes of $3,457..................	--	--	--	(3,714)
Net unrealized losses.....................	--	--	--	(5,150)
Total comprehensive income..............	--	--	--	--
Balance at December 31, 2003.....................	$ 234	$154,694	$107,387	$ 4,627

	TOTAL STOCKHOLDERS' EQUITY
Balance at March 31, 2003	$193,084
Earned SIP stock awards	68
Earned ESOP shares charged to expense	1,754
Stock options exercised, including related tax benefits of $9,601	24,840
Cash dividends declared and paid (1st quarter at $0.10 per share; 2nd and 3rd quarters at $0.13 per share)	(6,367)
Common stock acquired for certain employee benefit plans (5,396 shares at an average price of $14.85 per share)	(80)
Common stock sold for certain employee benefit plans (176,150 shares at an average price of $24.38 per share)	4,295
Comprehensive income:	
Net income	16,654
Other comprehensive income (loss), net of tax	
Unrealized holding losses on available for sale securities, net of taxes of ($1,337)	--
Reclassification adjustment for gains included in net income, net of taxes of $3,457	--
Net unrealized losses	(5,150)
Total comprehensive income	11,504
Balance at December 31, 2003	$229,098

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 NINE ENDED DECEM
	2003
Cash flows from operating activities:	
Net income	$ 16,654
Adjustments to reconcile net income to net cash provided by (used in)	

operating activities:	
Amortization (accretion) of:	
Discounts, net	(2,020)
Deferred loan origination costs	1,270
Mortgage servicing rights	2,466
Intangible assets	1,659
Provision for loan losses	650
Provision for estimated impairment on mortgage servicing rights	171
Gains on sales of:	
Mortgage loans	(22,289)
Investment and mortgage-backed securities available-for-sale	(7,171)
Office property and equipment	(2)
Net proceeds from sales of mortgage loans	2,529,631
Origination of mortgage loans held for sale	(2,326,060)
Earnings on bank-owned life insurance	(1,293)
Depreciation of office properties and equipment	3,358
Appreciation in fair value of ESOP shares	1,754
Earned SIP shares	68
Increase or decrease in:	
Accrued interest receivable	(514)
Other assets	(6,205)
Accrued interest payable	49
Other liabilities	(29,919)
Net cash provided by (used in) operating activities	162,257
Cash flows from investing activities:	
Purchase of investment securities available for sale	(3,010)
Purchase of mortgage-backed securities available for sale	(541,550)
Payments received on mortgage-backed securities	263,029
Proceeds from sale of investments securities available for sale	14,996
Proceeds from sale of mortgage-backed securities available for sale	87,777
Maturities of investment securities available for sale	3,689
Net increase in loans	(156,286)
Proceeds from sale of office properties and equipment	12
Purchases of office properties and equipment	(1,814)
Net cash used in investing activities	(333,157)
Cash flows from financing activities:	
Net increase in deposits	39,212
Proceeds from FHLB advances and other borrowings	17,247,941
Repayments on FHLB advances and other borrowings	(17,146,087)
Net change in advance payments by borrowers for taxes and insurance	(1,628)
Cash dividends paid	(6,367)
Proceeds from sale of (payments to acquire) common stock, net	4,215
Common stock issued in private placement	--
Stock options exercised, including related tax benefits	24,840
Net cash provided by financing activities	162,126
Net decrease in cash and cash equivalents	(8,774)
Cash and cash equivalents at beginning of period	55,529
Cash and cash equivalents at end of period	$ 46,755
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	$ 41,878
Income taxes	$ 4,527

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 nine months ended December 31, 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) 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. On the day it was announced, the transaction was 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 second calendar quarter of 2004.

The proposed transaction will be submitted to the Company's shareholders for their consideration. Webster and the Company filed with the SEC a registration statement, a preliminary 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 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.

(4) GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill and other intangible assets for the nine months ended December 31, 2003 are as follows (in thousands):

	GOODWILL	CORE DEPOSIT INTANGIBLE ASSET	NON-COMPETE INTANGIBLE ASSET	TOTAL IDENTIFIABLE INTANGIBLE ASSETS
Balance at March 31, 2003	$ 43,825	$ 9,596	$ 238	$ 9,834
Recorded during the period	--	--	--	--
Amortization expense	--	(1,464)	(195)	(1,659)
Impairment recognized	--	--	--	--
Balance at December 31, 2003	$ 43,825	$ 8,132	$ 43	$ 8,175

Estimated amortization expense for fiscal years ended March 31:			
2004	$ 1,933	$ 238	$ 2,1
2005	1,717	--	1,7
2006	1,500	--	1,5
2007	1,283	--	1,2
2008	1,066	--	1,0
After 2008	2,097	--	2,0

The components of identifiable intangible assets at December 31, 2003 are as follows (in thousands):

	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Core deposit intangible asset	$ 11,926	$ 3,794	$ 8,132

Non-compete intangible asset	520	477	43
	$ 12,446	$ 4,271	$ 8,175

(5) 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 DECEMBER 31,		FOR THE NINE MO ENDED DECEMBER	
	2003	2002	2003	200
Net income as reported..................................	$ 4,472	$ 6,926	$ 16,654	$ 17
Pro forma net income....................................	4,393	6,819	16,418	16
Basic earning per share as reported.....................	0.25	0.43	0.96	
Diluted earnings per share as reported..................	0.24	0.41	0.95	
Pro forma basic earnings per share......................	0.24	0.42	0.95	
Pro forma diluted earnings per share....................	0.24	0.41	0.94	

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.

(6) IMPACT OF RECENT ACCOUNTING STANDARDS

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") 46-R, "Consolidation of Variable Interest Entities - Revised." FIN 46-R revises FIN 46, "Consolidation of Variable Interest Entities" which is an interpretation of Accounting Research Bulletin 51, "Consolidated Financial Statements." FIN 46-R provides guidance regarding the consolidation of special purpose entities, and removed uncertainty over whether FIN 46 required consolidation or deconsolidation of special purpose entities that issue trust preferred securities. FIN 46-R clarified that even those entities that issue trust preferred securities with call options must be deconsolidated. FIN 46-R is effective for financial statements for periods ending after December 15, 2003, with no requirement for restatement of previous periods. The Company adopted FIN 46-R on December 31, 2003, and therefore has deconsolidated its trust subsidiary as of that date. Adoption of this Interpretation did not have a material impact on the Company's financial position or results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards ("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.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits--an amendment of FASB Statements No. 87, 88, and 106". SFAS No. 132 (revised 2003) revises employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 (revised 2003), which is effective for financial statements with fiscal years ending after December 15, 2003, does not change the measurement or recognition of those plans required by SFAS No. 87, 88, and 106, but augments the disclosure requirements of the original SFAS No. 132 with additional disclosure requirements. The Company does not believe the adoption of SFAS No. 132 (revised 2003) 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 decreased $2.5 million, or 35%, to $4.5 million for the third quarter of fiscal year 2004 from $6.9 million for the third quarter of fiscal year 2003. Diluted earnings per share ("EPS") decreased 41% to $0.24 for the third quarter of fiscal year 2004 from $0.41 for the third quarter of fiscal year 2003. Income before income tax expense decreased $3.8 million, or 34%, to $7.5 million, the net result of a decrease in net interest income after provision for loan losses of $2.1 million, and increases in non-interest income of $3.0 million and non-interest expense of $4.6 million.

For the first nine months of fiscal year 2004, net income was $16.7 million, a decrease of $353,000, or 2%, from $17.0 million for the first nine months of fiscal year 2003. Diluted EPS decreased 8% to $0.95 for the first nine months of fiscal year 2004 from $1.03 for the first nine months of fiscal year 2003. Income before income tax expense increased $277,000, or 1%, to $28.0 million, the net result of increases in net interest income after provision for loan losses of $658,000, non-interest income of $10.8 million, and non-interest expense of $11.2 million. Weighted average diluted shares outstanding increased 9% for the third quarter and 6% for the first nine months due primarily to 1.4 million of common shares issued for stock options exercised subsequent to the announcement of the agreement to merge with Webster.

Return on average stockholders' equity was 8.45% for the third quarter of fiscal year 2004 and 10.90% for the first nine months of fiscal year 2004, compared to 14.78% and 13.01% for the respective periods of fiscal year 2003. Return on average assets was 0.72% for the third quarter of fiscal year 2004 and 0.86% for the first nine months of fiscal year 2004, compared to 1.08% and 0.93% for the respective periods of fiscal year 2003.

NET INTEREST INCOME

Net interest income before provision for loan losses decreased $2.0 million, or 13%, to $13.7 million for the third quarter of fiscal year 2004 from $15.7 million for the third quarter of fiscal year 2003. The net interest rate spread and net interest margin were 2.20% and 2.40%, respectively, for the third quarter of fiscal year 2004, compared to 2.42% and 2.68%, respectively, for the third quarter of fiscal year 2003. For the first nine months of fiscal year 2004, net interest income before provision for loan losses increased $908,000, or 2%, to $45.3 million for the first nine months of fiscal year 2004 from $44.4 million for the first nine months of fiscal year 2003. The net interest rate spread and net interest margin were 2.29% and 2.53%, respectively, for the first nine months of fiscal year 2004, compared to 2.44% and 2.67%, respectively, for the first nine months of fiscal year 2003. 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, including the effects of reduced balances of mortgage loans held for sale, 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 annualized average yields and costs are derived by dividing annualized 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 D			
	2003			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAG BALANC
	(DOLLARS IN THOUSAN			
Assets:				
Interest-earning assets:				
Loans receivable, net and mortgage loans held for sale (1)	$ 1,477,895	$ 19,907	5.39%	$ 1,462
Investment securities (2)	108,335	572	2.10	99
Mortgage-backed securities (3)	689,231	6,449	3.74	758
Total interest-earning assets	2,275,461	26,928	4.73	2,320
Noninterest-earning assets	202,672			214

Total assets	$ 2,478,133			$ 2,534
Liabilities and Stockholders' Equity:				
Interest-bearing liabilities:				
Deposits (4)	$ 1,355,791	5,317	1.56	$ 1,130
FHLB advances and other borrowings	720,909	7,910	4.37	959
Total interest-bearing liabilities	2,076,700	13,227	2.53	2,090
Noninterest-bearing liabilities (5)	190,930			258
Total liabilities	2,267,630			2,348
Stockholders' equity	210,503			185
Total liabilities and stockholders' equity	$ 2,478,133			$ 2,534
Net interest rate spread(6)		$ 13,701	2.20%	
Net interest margin (7)			2.40%	
Ratio of interest-earning assets to interest-bearing liabilities	109.57%			11

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	FOR THE NINE MONTHS ENDED DECEM			
	2003			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE
			(DOLLARS IN THOUSANDS)	
Assets:				
Interest-earning assets:				
Loans receivable, net and mortgage loans held for sale (1)	$1,628,111	$ 66,302	5.43%	$1,326,23
Investment securities (2)	93,644	2,053	2.92	126,13
Mortgage-backed securities (3)	661,282	18,901	3.81	753,92
Total interest-earning assets	2,383,037	87,256	4.88	2,206,28
Noninterest-earning assets	196,335			220,25
Total assets	$2,579,372			$2,426,54
Liabilities and Stockholders' Equity:				
Interest-bearing liabilities:				
Deposits (4)	$1,338,601	16,751	1.67	$1,149,73
FHLB advances and other borrowings	815,749	25,176	4.11	889,95
Total interest-bearing liabilities	2,154,350	41,927	2.59	2,039,69

Noninterest-bearing liabilities (5)	221,766			213,37
Total liabilities	2,376,116			2,253,06
Stockholders' equity	203,256			173,47
Total liabilities and stockholders' equity	$2,579,372			$2,426,54
Net interest rate spread (6)		$ 45,329	2.29%	
Net interest margin (7)			2.53%	
Ratio of interest-earning assets to interest-bearing liabilities	110.62%			108.1

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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 $275,000 for the third quarter of fiscal year 2004, compared to $150,000 for the third quarter of fiscal year 2003. For the first nine months of fiscal year 2004, the provision for loan losses was $650,000, compared to $400,000 for the first nine 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 $3.0 million, or 27%, to $14.0 million for the third quarter of fiscal year 2004 from $11.1 million for the third quarter of fiscal year 2003, due primarily to increases of $4.0 million in gain on sale of investment securities available for sale, and $793,000 in loan servicing income, partially offset by a decrease of $1.9 million in gain on sale of mortgage loans. For the first nine months of fiscal year 2004, non-interest income increased $10.8 million, or 39%, to $38.9 million from $28.1 million for the first nine months of fiscal year 2003, due primarily to increases of $4.5 million in gain on sale of investment securities available for sale, $3.2 million in gain on sale of mortgage loans, and $1.8 million in loan servicing income.

The decrease in gain on sale of mortgage loans for the third quarter was due primarily to a lower volume of loans originated for sale, partially offset by changes in fair value of derivative instruments utilized in secondary market hedging activities, as required by SFAS No. 133, that resulted in an addition to the gain of $1.3 million for the third quarter of fiscal year 2004, compared to a reduction of $582,000 for the third quarter of fiscal year 2003. This $1.3 million addition to the gain in the third quarter of fiscal year 2004 reflected declines in commitments to originate mortgage loans for sale and commitments to sell mortgage loans. The increase in gain on sale of mortgage loans for the first nine months was due primarily to a higher volume of loans originated for sale, and changes in fair value of derivative

instruments utilized in secondary market hedging activities that resulted in an addition to the gain of $388,000 for first nine months of fiscal year 2004, compared to a reduction of $420,000 for the first nine months of fiscal year 2003. In accordance with generally accepted accounting principles, the Company has not recognized $160,000 of unrealized gains as of December 31, 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 third quarter of fiscal year 2004 was due primarily to a $1.2 million addition to the valuation allowance for mortgage servicing rights for the third quarter of fiscal year 2003. No valuation allowance adjustments were required for the third quarter of fiscal year 2004. The increase in loan servicing income for the first nine months was due primarily to a $1.4 million addition to the valuation allowance offset by a $1.2 million recovery for the first nine months of fiscal year 2004, compared to a $2.6 million addition to the valuation allowance for the first nine 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 $903,000 for the third quarter of fiscal year 2004 and $2.5 million for the first nine months of fiscal year 2004, compared to $785,000 and $2.3 million for the respective periods of fiscal year 2003.

NON-INTEREST EXPENSE

Non-interest expense increased $4.6 million, or 30%, to $20.0 million for the third quarter of fiscal year 2004 from $15.4 million for the third quarter of fiscal year 2003, due primarily to increases of $3.0 million in compensation and benefits and $1.4 million in other non-interest expense. For the first nine months of fiscal year 2004, non-interest expense increased $11.2 million, or 25%, to $55.7 million from $44.4 million for the first nine months of fiscal year 2003, due primarily to increases of $8.4 million in compensation and benefits and $2.5 million in other non-interest expense. The increase in non-interest expense for the third quarter was due primarily to expenses related to the pending acquisition by Webster totaling approximately $2.7 million. In addition, the increase in non-interest expense for the first nine months 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 and pension plan costs.

INCOME TAXES

Income tax expense decreased $1.3 million, or 31%, to $3.0 million for the third quarter of fiscal year 2004 from $4.3 million for the third quarter of fiscal year 2003. For the first nine months of fiscal year 2004, income tax expense increased $630,000, or 6%, to $11.3 million from $10.7 million for the first nine months of fiscal year 2003. The Company's effective tax rate increased to 40.4% for the first nine months of fiscal year 2004 from 38.6% for the first nine months of fiscal year 2003, due primarily to the effects of increased appreciation of FAB stock contributed to the ESOP that is not tax deductible.

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FINANCIAL CONDITION

OVERVIEW

Total assets increased $142.0 million, or 6%, to $2.556 billion at December 31, 2003 from $2.414 billion at March 31, 2003, due primarily to an increase of $153.5 million 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:

	DECEMBER 31, 2003		MARCH 31, 2003	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
Mortgage Loans:				
Residential	$ 660,357	46.20%	$ 601,063	47.21%
Commercial real estate	192,608	13.47	142,974	11.23
Construction and land	66,165	4.63	61,698	4.85
Total mortgage loans	919,130	64.30	805,735	63.29
Commercial Loans	275,683	19.29	283,137	22.24
Consumer Loans:				
Home equity lines	194,513	13.61	140,189	11.01
Second mortgages	31,505	2.20	32,914	2.58
Other consumer loans	8,650	0.60	11,158	0.88
Total consumer loans	234,668	16.41	184,261	14.47
Total loans receivable	1,429,481	100.00%	1,273,133	100.00%
Less:				
Allowance for loan losses	(19,362)		(19,335)	
Undisbursed proceeds of construction mortgages in process	(21,626)		(17,752)	
Purchase premium on				

loans, net	2,522	3,377
Deferred loan origination costs, net	3,767	1,908
Loans receivable, net	$1,394,782	$1,241,331

Mortgage loan originations totaled $2.668 billion for the first nine months of fiscal year 2004, including $2.326 billion originated for sale of which $1.829 billion were originated by PMC. During this time, $2.492 billion of mortgage loans were sold in the secondary market, including $1.929 billion sold servicing released by PMC.

Mortgage loans sold to others and serviced by the Bank on a fee basis under various agreements decreased $126.0 million, or 9%, to $1.286 billion at December 31, 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 $1.8 million, or 30%, to $7.7 million at December 31, 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 December 31, 2003, from $3.1 million at March 31, 2003, due to a valuation recovery of $1.2 million and a write-down of $1.2 million for permanent impairment, less an addition for estimated impairment of $1.4 million during the first nine months of fiscal year 2004. Mortgage servicing rights were 0.60% of loans serviced for others at December 31, 2003, compared to 0.42% at March 31, 2003.

Balance sheet growth during the first nine months of fiscal year 2004 was primarily funded by increases of $98.5 million in FHLB advances and other borrowings, and $39.0 million in deposit balances. The 3% increase in deposits, to $1.466 billion at December 31, 2003, included increases in demand deposits of $27.7 million, or 5%, and savings deposits of $29.4 million, or 10%, partially offset by a decline in time deposits of $18.1 million, or 3%. The Company's demand and savings accounts, or core deposits, were 62.6% of total deposits at December 31, 2003, compared to 60.3% at March 31, 2003.

Total stockholders' equity increased $36.0 million, or 19%, to $229.1 million at December 31, 2003, from $193.1 million at March 31, 2003. The increase was due primarily to $16.7 million in net income and increases of $24.8 million from common shares issued for stock options exercised, including related tax benefits, and $6.1 million from other stock-based employee benefit plans, partially offset by $6.4 million in dividends paid to stockholders and a $5.2 million decrease in the fair market value of available for sale securities, net of tax. Stockholders' equity to assets was 8.96% at December 31, 2003, compared to 8.00% at March 31, 2003. Book value per share increased to $12.30 at December 31, 2003 from $11.63 at March 31, 2003. Tangible book value per share increased to $9.51 at December 31, 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 $117,000 for the three months ended December 31, 2003 and $136,000 for the nine months ended December 31, 2003.

	DECEMBER 31, 2003	MARCH 3 2003
	(DOLLARS IN THOUSANDS)	
Non-accrual loans:		
Mortgage loans:		
One-to-four family	$ 982	$ 1
Commercial real estate	7,643	
Total mortgage loans	8,625	1
Commercial loans	1,065	1
Consumer loans:		
Second mortgages	97	
Other consumer loans	20	
Total consumer loans	117	
Total non-accrual loans	9,807	3
REO, net (1)	140	
Total non-performing assets	$ 9,947	$ 3
Allowance for loan losses as a percent of loans (2)	1.37%	
Allowance for loan losses as a percent of non-performing loans (3)	197%	
Non-accrual loans as a percent of loans (2)(3)	0.69%	
Non-performing assets as a percent of total assets	0.39%	

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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 increase of $6.4 million in non-performing assets during the first nine months of fiscal year 2004 was due primarily to one non-delinquent commercial real estate loan placed on non-accrual status during the third quarter of fiscal year 2004 based on the Company's uncertainty that it will collect all amounts due under the terms of the loan.

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 $19.4 million at December 31, 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 DECEMBER 31,		FOR THE NINE MON ENDED DECEMBER 3	
	2003	2002	2003	20
	(DOLLARS IN THOUSANDS)			
Balance at beginning of period........................	$ 19,318	$ 19,321	$ 19,335	$ 1
Provision for loan losses.............................	275	150	650	
Charge-offs:				
One-to-four family mortgage loans.................	-	(60)	(63)	
Commercial loans..................................	(191)	(117)	(489)	
Consumer Loans:				
Home equity lines..............................	(5)	(8)	(16)	
Other consumer.................................	(38)	(30)	(87)	
Total	(234)	(215)	(655)	
Recoveries..	3	11	32	
Balance at end of period..............................	$ 19,362	$ 19,267	$ 19,362	$ 1
Ratio of net charge-offs during the period to average loans outstanding during the period........	0.06%	0.07%	0.06%	

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 December 31, 2003 as compared to December 31, 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 December 31, 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 December 31, 2003 and March 31, 2003, as calculated by the Company.

CHANGE IN INTEREST RATES IN BASIS POINTS	DECEMBER 31, 2003 ESTIMATED NET PORTFOLIO VALUE	NPV RATIO	NPV SENSITIVITY IN BASIS POINTS	MARCH 31, 2003 ESTIMATED NET PORTFOLIO VALUE	NPV RATIO	NPV SENSITIVITY IN BASIS POINTS
			(DOLLARS IN THOUSANDS)			
300	$ 127,765	5.22%	(223)	$ 179,199	7.57%	123
200	154,324	6.19	(126)	181,195	7.54	120
100	177,459	6.99	(47)	172,562	7.09	75
Unchanged	192,344	7.46	--	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 December 31, 2003, cash, short-term investments, mortgage loans held for sale, investment securities available for sale, and mortgage-backed securities available for sale totaled $933.3 million, or 36.5% 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 December 31, 2003, the Bank had $800.6 million in advances outstanding from the FHLB and other borrowings, and an additional borrowing capacity from the FHLB of $197.2 million including the $25.0 million line of credit. At December 31, 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 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 December 31, 2003, the Company deconsolidated Capital Trust II. 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 December 31, 2003, the Bank had commitments to originate loans and unused outstanding lines of credit and undistributed balances of construction loans totaling $387.8 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 December 31, 2003 totaled $400.9 million. Based on its prior experience and other factors, the Bank currently expects that it will retain a majority of maturing certificate accounts.

At December 31, 2003, the consolidated capital to total assets ratio of the Company was 8.59%. During fiscal year 2004, the Company paid a quarterly cash dividend to stockholders of $0.10 per share in the first quarter and $0.13 per share in the second and third quarters, and announced the declaration of a cash dividend of $0.13 per share to stockholders for payment in the fourth quarter. The Company's primary sources of funding for dividends, and payments for periodic stock repurchases, have 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 December 31, 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 nine months of fiscal year 2004. The Company has repurchased 4,973,806 shares since May 15, 1998.

At December 31, 2003, the Bank exceeded all of its regulatory capital requirements. The Bank's Tier 1 core capital of $159.7 million, or 6.42% of total adjusted assets, was above the required level of $99.6 million, or 4.0%; risk-based capital of $170.8 million, or 11.69% of risk-weighted assets, was above the required level of $116.9 million or 8.0%, and Tier 1 risk-based capital of $159.7 million, or 10.59% of risk-weighted assets, was above the required level of $58.4 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 December 31, 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 December 31, 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.

In January 2003, a claim was filed against the Trust Company, of which the Company owns a 65% equity interest, seeking recovery of approximately $1 million in unidentifiable damages resulting from the foreclosure of a property the mortgage of which was held by an account holder of the Trust Company. During the third quarter of fiscal year 2004, the claim was settled without the Trust Company incurring any expenses or losses in connection with the action.

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

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)

10.1 Employment Agreement by and between Robert F. Stoico, FIRSTFED AMERICA BANCORP, INC., First Federal Bank of America and Webster Financial Corporation (filed herewith)

10.2 Employment Agreement by and between Edward A. Hjerpe, III, FIRSTFED AMERICA BANCORP, INC., First Federal Bank of America and Webster Financial Corporation (filed herewith)

10.3 Employment Agreement by and between Kevin J. McGillicuddy, FIRSTFED AMERICA BANCORP, INC., First Federal Bank of America and Webster Financial Corporation (filed herewith)

10.4 Employment Agreement by and between Frederick R. Sullivan, FIRSTFED AMERICA BANCORP, INC., First Federal Bank of America and Webster Financial Corporation (filed herewith)

10.5 Employment Agreement by and between Terrence M. Tyrrell, FIRSTFED AMERICA BANCORP, INC., First Federal Bank of America and Webster Financial Corporation (filed herewith)

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 October 9, 2003, attaching a press release dated October 7, 2003 announcing that the Company had reached a definitive agreement to be acquired by Webster Financial Corporation and certain other information regarding the Merger.

A current report on Form 8-K was filed on November 5, 2003 that incorporated by reference the Agreement and Plan of Merger to the Current Report on Form 8-K filed by Webster Financial Corporation on November 4, 2003.

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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.
Registrant

Date: February 12, 2004 /s/ Robert F. Stoico

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

Date: February 12, 2004 /s/ Edward A. Hjerpe, III

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

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