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PORT FINANCIAL CORP
Form 10-Q
May 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2001

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 000-29343

Port Financial Corp.
(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-1145480
(I.R.S. Employer
Identification No.)

1380 Soldiers Field Road, Brighton, Massachusetts 02135
(Address of principal executive offices)
(Zip Code)

(617) 661-4900
(Registrant's telephone number including area code)

N/A
(Former name, former address and former fiscal year,
if changed from 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 twelve 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 No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at May 9, 2000
-----	-----
Common Stock, Par value \$.01	7,725,553

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Part I - FINANCIAL INFORMATION

- Item 1. Financial Statements

Port Financial Corp.
Consolidated Balance Sheets
(Unaudited)

March 31, 2001	December 31, 2000
-----	-----

(In Thousands)

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ASSETS

Cash and due from banks	\$ 10,525	\$ 11,819
Federal funds sold	52,410	36,680
Other interest bearing cash equivalents	25,772	21,768
	-----	-----
Total cash and cash equivalents	88,707	70,267
Certificates of deposit	2,133	104
Investment securities held to maturity, at amortized cost	17,173	22,332
Investment securities available for sale, at fair value	158,959	181,196
Loans held for sale	2,834	823
Loans, net	681,299	687,382
Federal Home Loan Bank Stock, at cost	5,727	4,951
Savings Bank Life Insurance Stock, at cost	1,934	1,934
Banking premises and equipment, net	23,543	23,649
Accrued interest receivable	5,991	6,131
Other assets	5,382	5,900
	-----	-----
Total assets	\$993,682	\$1,004,669
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	\$793,611	\$ 806,021
Federal Home Loan Bank advances	38,716	35,801
Mortgagors' escrow payments	4,281	3,801
Accrued expenses and other liabilities	7,887	6,993
	-----	-----
Total liabilities	844,495	852,616
	-----	-----

Commitments and Contingencies (Note 2)

Stockholders' Equity:

Preferred stock, \$.01 par value - Authorized - 5,000,000 shares Issued and outstanding - no shares	-	-
Common stock, \$.01 par value - Authorized - 30,000,000 shares Issued and outstanding - 7,725,553 shares at March 31, 2001 and at December 31, 2000	77	77
Additional paid-in capital	76,310	76,281

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Port Financial Corp.
Consolidated Balance Sheets-(Continued)
(Unaudited)

March 31, 2001	December 31, 2000
-----	-----
(In Thousands)	

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Treasury stock, at cost - 307,713 shares at March 31, 2001	(5,644)	-
Unearned compensation - Recognition and retention plan	(4,083)	(4,304)
Unearned compensation - ESOP	(7,214)	(7,277)
Retained earnings	84,278	82,750
Accumulated other comprehensive income	5,463	4,526
	-----	-----
Total stockholders' equity	149,187	152,053
	-----	-----
Total liabilities and stockholders' equity	\$993,682	\$1,004,669
	=====	=====

See the accompanying notes to unaudited consolidated financial statements.

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Port Financial Corp.
Consolidated Statements of Operations
(Dollars in Thousands Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
	----	----
Interest and dividend income:		
Interest on loans	\$13,540	\$11,140
Interest and dividends on investment securities	3,103	2,264
Interest on other cash equivalents	841	206
Interest on certificates of deposit	31	88
	-----	-----
Total interest and dividend income	17,515	13,698
	-----	-----
Interest expense:		
Interest on deposits	9,078	6,532
Interest on borrowed funds	575	668
	-----	-----
Total interest expense	9,653	7,200
	-----	-----
Net interest income	7,862	6,498
Provision for possible loan losses	200	166
Noninterest income:		
Customer service fees	292	226
Gain on sale of loans, net	153	22
Loan servicing fee income	117	130
Other income	839	8
	-----	-----
Total noninterest income	1,401	386
	-----	-----

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Noninterest expense:		
Compensation and employee benefits	3,467	2,743
Occupancy and equipment expense	875	752
Data processing service fees	500	380
Marketing and investor relations	274	292
Other noninterest expense	1,042	762

Total noninterest expenses	6,158	4,929

Income before provision for income taxes	2,905	1,789
Provision for income taxes	1,005	662

Net income	\$ 1,900	\$ 1,127
	=====	
Earnings per share:		
Basic	\$ 0.29	Not meaningful
Diluted	\$ 0.28	Not meaningful
Weighted average shares outstanding:		
Basic	6,659,922	-
Diluted	6,749,656	-

See the accompanying notes to unaudited consolidated financial statements

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Port Financial Corp.
Consolidated Statement of Changes in Stockholders' Equity
For The Period Ending March 31, 2001
(In Thousands)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation ESOP/RRP	Treasury Stock
	-----	-----	-----	-----	-----	-----
Balance at December 31, 2000	\$ 77	\$76,281	\$82,750	\$4,526	\$ (11,581)	\$ -
Net income	-	-	1,900	-	-	-
Change in unrealized gain on securities available for sale, net of taxes of \$561	-	-	-	937	-	-
Purchase of treasury stock	-	-	-	-	-	(5)
Amortization of unearned compensation	-	29	-	-	284	-
Cash dividend - \$.05 per share	-	-	(372)	-	-	-

Balance at March 31, 2001	\$ 77	\$76,310	\$84,278	\$5,463	\$ (11,297)	\$ (5)
	=====					

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Port Financial Corp.
 Consolidated Statements of Cash Flows
 (In Thousands)
 (Unaudited)

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Cash flows from operating activities:		
Net income	\$ 1,900	\$ 1,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for possible loan losses	200	166
Depreciation and amortization	500	243
Accretion of premiums on investment securities, net	(51)	(38)
Gain on loan sales, net	(153)	(22)
(Increase) decrease in cash surrender value of life insurance policies	(49)	135
Proceeds from sale of loans	11,283	2,885
Loans originated for sale	(13,141)	(3,093)
Gain on sale of branch deposits	(529)	-
Decrease (increase) in other assets	567	(778)
Decrease (increase) in accrued interest receivable	140	(862)
Decrease in deferred loan fees	(13)	(139)
Decrease in accrued expenses and other liabilities	894	602
	-----	-----
Net cash provided by operating activities	1,548	147
	-----	-----
Cash flows from investing activities:		
Proceeds from maturities and principal repayments of securities available for sale	31,779	4,462
Purchases of securities available for sale	(8,083)	-
Proceeds from maturities and principal repayments of held to maturity securities	5,159	117
Purchases of securities held to maturity	-	(17,969)
Proceeds from maturities of certificates of deposit	-	2,876
Purchase of certificates of deposit	(2,029)	(79)
Purchase of FHLB stock	(776)	(499)
Purchase of premises and equipment	(394)	(7,586)
Net decrease (increase) in loans	6,108	(20,635)
Recoveries of loans previously charged-off	3	17
	-----	-----
Net cash used in investing activities	31,767	(39,296)
	-----	-----

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Port Financial Corp.

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Consolidated Statements of Cash Flows (Continued)
(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
	----	----
Cash flows from financing activities:		
Decrease in term deposits	(1,422)	(5,107)
Decrease in term deposits due to sale of branch deposits	(5,958)	-
Increase in demand deposits, NOW accounts and Savings accounts	5,133	111,299
Decrease in demand deposits, NOW accounts and Savings accounts due to sale of branch deposits	(10,163)	-
Increase in mortgagors' escrow payments	480	623
Increase (decrease) to borrowings	2,915	(10,194)
Cash dividends	(372)	-
Treasury stock purchase	(5,644)	-
	(15,031)	96,621
Net increase in cash and cash equivalents	18,284	57,551
Cash and cash equivalents, beginning of year	70,267	19,429
	\$ 88,551	\$ 76,980
	=====	=====
Supplemental disclosures of cash flows information:		
Cash paid for interest	\$ 9,617	\$ 7,227
	=====	=====
Cash paid for income taxes	\$ 47	\$ 277
	=====	=====

See the accompanying notes to unaudited consolidated financial statements.

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Port Financial Corp.
Notes to Unaudited Consolidated Financial Statements

1) Basis of Presentation

The unaudited consolidated financial statements of Port Financial Corp. ("Port" or the "Company") include the accounts of the Company and its two wholly owned subsidiaries, Cambridgeport Bank (the "Bank") and Brighton Investment Corporation. Brighton Investment Corporation engages in the investment of securities. Cambridgeport Bank is a Massachusetts-chartered savings bank with its headquarters located in Cambridge, Massachusetts. The Bank has three wholly owned subsidiaries, Temple Investment Corporation, River Investment Corporation and Cambridgeport Insurance

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Services, Inc. Temple Investment Corporation and River Investment Corporation both invest in securities. Cambridgeport Insurance Services, Inc. was established in April 2000 and intends to provide insurance. In addition, Cambridgeport Bank is the sole member of Temple Realty LLC, which owns the Company's administrative center.

The unaudited consolidated financial statements of Port presented herein, should be read in conjunction with the audited consolidated financial statements of Port Financial Corp. as of and for the year ended December 31, 2000, and the notes thereto. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the unaudited consolidated financial statements presented herein reflect all adjustments (consisting only of normal adjustments) necessary for a fair presentation. Interim results are not necessarily indicative of results to be expected for the entire year.

The Company believes that the disclosures are adequate to make the information presented not misleading. However, results for the periods presented are not necessarily indicative of the results to be expected for the entire 2001 fiscal year.

2) Commitments and Contingencies

At March 31, 2001, the Company had outstanding commitments to originate loans amounting to approximately \$9.8 million, and unadvanced funds on construction loans and lines of credit amounting to approximately \$2.9 million and \$166.2 million, respectively. The Company had also entered into forward sales agreements related to its residential loan commitments intended for sale in the amount of \$9.1 million.

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3) Earnings Per Share

Basic earnings per share represents income available to holders of common stock divided by the weighted-average number of common shares outstanding during the period. In calculating basic earnings per share, the number of shares of common stock outstanding is reduced by the number of shares held by Port's Employee Stock Ownership Plan (the "ESOP") and its 2000 Recognition and Retention Plan (the "RRP") that have not been allocated or are not committed for release to participants' individual accounts. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed conversion. Potential common shares that may be issued by the Company relate solely to outstanding stock options and unearned RRP shares and are determined using the treasury stock method.

Earnings per share is not presented for the three month period ended March 31, 2000 because the earnings per share calculation for the period prior to April 11, 2000 (the date of conversion to a stock company) is not meaningful. Prior to April 11, 2000, the Company was a mutual holding

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company and no stock was outstanding.

4) Book Value Per Share

Book value per share was \$20.91 as of March 31, 2001 and \$20.43 as of December 31, 2000. In calculating book value per share, the number of shares of common stock issued and outstanding is reduced by unearned RRP shares and treasury stock. For the purpose of calculating book value per share, there were 7,135,105 and 7,442,818 shares of common stock as of March 31, 2001 and December 31, 2000 respectively.

5) Quincy Branch

On February 23, 2001, the Bank sold approximately \$16.1 million of deposits that were related to its branch located in the Roche Bros. Supermarket in Quincy, Massachusetts to South Shore Savings Bank. The Bank closed the Quincy Branch on April 5, 2001 upon the termination of its lease. The deposit sale generated a pre-tax gain of \$529,000.

6) 2000 Recognition and Retention Plan

The Company adopted the Recognition and Retention Plan, which was approved by shareholders' in October 2000. The Recognition and Retention Plan is authorized to issue up to 297,713 shares of restricted stock of which 282,735 has been awarded. Each award will vest at a rate of 20% per year.

7) Employee Stock Ownership Plan

At March 31, 2001, the ESOP held 570,615 unallocated shares with an aggregate cost of \$7,213,888 and a market value of \$10,413,724. For the three month periods ended March 31, 2001 and 2000, \$91,452 and \$0 was charged to compensation and employee benefit expense respectively, related to this plan year.

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8) Stock Repurchases

On February 22, 2001, the Company announced a repurchase program to acquire 372,140 shares of its common stock. As of March 31, 2001, the Company had purchased 10,000 shares under this program. In addition, during the quarter ended March 31, 2001, the Company completed the purchase of the 297,713 shares authorized related to the RRP.

9) Loans

The loan portfolio consisted of the following (in thousands):

	March 31, 2001 ----- (Unaudited)	December 31, 2000 -----
Real estate loans-		
Residential	\$346,547	\$ 353,518
Commercial	237,431	241,325
Home equity lines of credit	84,027	82,885
Construction	14,892	11,458
	-----	-----
Total real estate loans	682,897	689,186
Commercial	1,621	1,083
Consumer	5,024	5,172

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Total loans	689,542	695,441
Less-Allowance for possible loan losses	8,243	8,059
Total loans, net	\$681,299	\$687,382

10) Deposits

A summary of deposit balances, by type, is as follows (in thousands):

	March 31, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
Demand deposit accounts	\$ 46,608	\$ 46,138
NOW accounts	70,535	69,101
Regular savings accounts	52,125	51,864
Money market accounts	323,102	330,297
	-----	-----
Total noncertificate accounts	492,370	497,400
	-----	-----
Term certificates-		
Term certificates less than \$100,000	242,166	250,662
Term certificates of \$100,000 and over	59,075	57,959
	-----	-----
Total term certificate accounts	301,241	308,621
	-----	-----
Total deposits	\$793,611	\$806,021
	=====	=====

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11) Business Segments

SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information, establishes standards for reporting segments of a business enterprise. Operating segments are components of an enterprise, which are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the President and Chief Executive Officer. The adoption of SFAS No. 131 did not have a material effect on the Company's primary financial statements, but did result in the disclosure of segment information contained herein. The Company has identified its reportable operating business segment as community banking based on products and services provided to the customer. The Company's community banking business segments consist of commercial banking and retail banking. The community banking business segment derives its revenues from a wide range of banking services, including lending activities, acceptance of demand, saving and time deposits, mortgage lending and sales and servicing income from investors. Nonreportable operating segments of the Company's operations that do not have similar characteristics to the community

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banking operations and do not meet the quantitative thresholds requiring disclosure are included in the Other category in the disclosure of business segments below. These nonreportable segments include Parent Company financial information. Consolidation adjustments are included in the consolidation adjustments category. The consolidation adjustments reflect certain eliminations of cash and Parent Company investments in subsidiaries.

The accounting policies used in the disclosure of business segments are the same as those described in the summary of significant accounting policies.

Reportable segments and reconciliation to consolidated financial information is as follows:

	Community Banking	Other	Consolidation Adjustments	Consolidated
			(Unaudited)	
			(In Thousands)	
March 31, 2001:				
Investment securities available				
For sale and held to maturity	\$141,666	\$ 44,880	\$ (10,414)	\$176,132
Loans, net	681,299	7,206	(7,206)	681,299
Total assets	948,476	160,313	(115,107)	993,682
Total deposits (1)	797,892	-	-	797,892
Total liabilities	851,553	2,506	(9,564)	844,495
Total interest and dividend income	16,645	1,386	(516)	17,515
Total interest expense	9,797	-	(144)	9,653
Net interest income	6,848	1,386	(372)	7,862
Provision for possible loan losses	200	-	-	200
Total noninterest income	1,401	-	-	1,401
Total noninterest expense	5,849	309	-	6,158
Net income	1,431	841	(372)	1,900

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	Community Banking	Other	Consolidation Adjustments	Consolidated
			(Unaudited)	
			(In Thousands)	
March 31, 2000:				
Investment securities available				
For sale and held to maturity	\$117,489	\$ 27,078	\$ -	\$144,567
Loans, net	597,855	-	-	597,855
Total assets	832,328	81,678	(53,187)	860,918
Total deposits (1)	728,134	-	-	728,134
Total liabilities	780,787	1,693	(1,646)	780,834
Total interest and dividend income	13,289	409	-	13,698
Total interest expense	7,200	-	-	7,200
Net interest income	6,089	409	-	6,498
Provision for possible loan losses	166	-	-	166

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Total noninterest income	386	-	-	386
Total noninterest expense	4,925	4	-	4,929
Net income	857	270	-	1,127