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PORT FINANCIAL CORP
Form 10-Q
August 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 June 30, 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) 779-8300
(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 August 9, 2001
-----	-----

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Common Stock,
Par value \$.01

7,719,553

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Item 1. Financial Statements

Port Financial Corp.
Consolidated Balance Sheets
(Unaudited)

	June 30, 2001	December 31, 2000
	-----	-----
	(In Thousands)	
ASSETS		
Cash and due from banks	\$ 14,639	\$ 11,819
Federal funds sold	14,745	36,680
Other interest bearing cash equivalents	14,434	21,768
	-----	-----
Total cash and cash equivalents	43,818	70,267
Certificates of deposit	2,165	104
Investment securities held to maturity, at amortized cost (Fair value was \$15,071 and \$22,443)	14,944	22,332
Investment securities available for sale, at fair value	196,892	181,196
Loans held for sale	4,500	823
Loans, net	687,546	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	23,565	23,649
Accrued interest receivable	5,414	6,131
Other assets	5,731	5,900
	-----	-----
Total assets	\$992,236	\$1,004,669
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$796,400	\$ 806,021
Federal Home Loan Bank advances	47,890	35,801
Mortgagors' escrow payments	3,531	3,801
Accrued expenses and other liabilities	7,243	6,993
	-----	-----
Total liabilities	855,064	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 - 7,719,553 shares at June 30, 2001		
And 7,725,553 at December 31, 2000	77	77
Additional paid-in capital	76,250	76,281

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

	June 30, 2001	December 31, 2000
	-----	-----
	(In Thousands)	
Treasury stock, at cost - 1,022,314 shares at June 30, 2001	(19,741)	-
Unearned compensation - Recognition and retention plan	(3,782)	(4,304)
Unearned compensation - ESOP	(7,151)	(7,277)
Retained earnings	86,120	82,750
Accumulated other comprehensive income	5,399	4,526
	-----	-----
Total stockholders' equity	137,172	152,053
	-----	-----
Total liabilities and stockholders' equity	\$992,236	\$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 June 30,	
	-----	-----
	2001	2000
	-----	-----
Interest and dividend income:		
Interest on loans	\$ 12,990	\$ 11,907
Interest and dividends on investment securities	3,077	2,685
Interest on other cash equivalents	517	445
Interest on certificates of deposit	33	20
	-----	-----
Total interest and dividend income	16,617	15,057
	-----	-----
Interest expense:		
Interest on deposits	7,642	6,851

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Interest on borrowed funds	659	488
	-----	-----
Total interest expense	8,301	7,339
	-----	-----
Net interest income	8,316	7,718
Provision for possible loan losses	200	250
Noninterest income:		
Customer service fees	312	254
Gain on sale of loans, net	180	51
Loan servicing fee income	108	127
Other income	540	299
	-----	-----
Total noninterest income	1,140	731
	-----	-----
Noninterest expense:		
Compensation and employee benefits	3,585	2,995
Occupancy and equipment expense	801	942
Data processing service fees	513	395
Marketing and investor relations	289	230
Other noninterest expense	844	874
	-----	-----
Total noninterest expenses	6,032	5,436
	-----	-----
Income before provision for income taxes	3,224	2,763
Provision for income taxes	1,105	967
	-----	-----
Net income	\$ 2,119	\$ 1,796
	=====	=====
Earnings per share:		
Basic	\$ 0.34	\$ 0.25
Diluted	\$ 0.33	\$ 0.25
Weighted average shares outstanding:		
Basic	6,265,482	7,145,719
Diluted	6,375,279	7,145,719

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)

Six Months Ended
June 30,

-----	-----
2001	2000
-----	-----

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Interest and dividend income:		
Interest on loans	\$ 26,530	\$ 23,047
Interest and dividends on investment securities	6,179	4,950
Interest on other cash equivalents	1,358	651
Interest on certificates of deposit	65	107
	-----	-----
Total interest and dividend income	34,132	28,755
	-----	-----
Interest expense:		
Interest on deposits	16,720	13,383
Interest on borrowed funds	1,234	1,156
	-----	-----
Total interest expense	17,954	14,539
	-----	-----
Net interest income	16,178	14,216
Provision for possible loan losses	400	416
Noninterest income:		
Customer service fees	604	480
Gain on sale of loans, net	333	74
Loan servicing fee income	224	257
Other income	1,380	306
	-----	-----
Total noninterest income	2,541	1,117
	-----	-----
Noninterest expense:		
Compensation and employee benefits	7,051	5,737
Occupancy and equipment expense	1,676	1,694
Data processing service fees	1,013	775
Marketing and investor relations	564	522
Other noninterest expense	1,886	1,637
	-----	-----
Total noninterest expenses	12,190	10,365
	-----	-----
Income before provision for income taxes	6,129	4,552
Provision for income taxes	2,110	1,629
	-----	-----
Net income	\$ 4,019	\$ 2,923
	=====	=====
Earnings per share:		
Basic	\$ 0.62	Not meaningful
Diluted	\$ 0.61	Not meaningful
Weighted average shares outstanding:		
Basic	6,461,612	-
Diluted	6,560,682	-

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 June 30, 2001
 (In Thousands)
 (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation ESOP/RRP	Trea Sto
Balance at December 31, 2000	\$77	\$76,281	\$82,750	\$4,526	\$(11,581)	\$
Net income	-	-	4,019	-	-	
Change in unrealized gain on securities Available for sale, net of taxes	-	-	-	868	-	
Change in fair market value of swap Agreement, net of taxes				5		
Purchase of treasury stock	-	-	-	-	-	(19)
Net forfeiture of RRP awards		(82)			82	
Amortization of unearned compensation		51	-	-	566	
Cash dividend - \$.05 per share	-	-	(649)	-	-	
Balance at June 30, 2001	\$77	\$76,250	\$86,120	\$5,399	\$(10,933)	\$(19)

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

	Six Months Ended June 30, 2001	2000
Cash flows from operating activities:		
Net income	\$ 4,019	\$ 2,
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for possible loan losses	400	
Depreciation and amortization	952	
Amortization of premiums on investment securities, net	65	
Gain on loan sales, net	(333)	
(Increase) decrease in cash surrender value of life insurance policies	(99)	
Proceeds from sale of loans	28,082	7,

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Loans originated for sale	(31,426)	(8,
Gain on sale of branch deposits	(529)	
Amortization of unearned compensation	617	
Decrease (increase) in other assets	268	
Decrease (increase) in accrued interest receivable	717	(1,
Decrease in deferred loan fees	51	(
Decrease in accrued expenses and other liabilities	250	

Net cash provided by operating activities	3,034	2,

Cash flows from investing activities:		
Proceeds from maturities and principal repayments of Securities available for sale	44,284	10,
Purchases of securities available for sale	(58,656)	(19,
Proceeds from maturities and principal repayments of held to maturity securities	7,388	
Purchases of securities held to maturity	-	(24,
Proceeds from maturities of certificates of deposit	-	5,
Purchase of certificates of deposit	(2,061)	
Purchase of FHLB stock	(776)	(
Purchase of premises and equipment	(868)	(11,
Net decrease (increase) in loans	(628)	(57,
Recoveries of loans previously charged-off	26	

Net cash used in investing activities	(11,291)	(97,

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

	Six Months Ended	
	June 30,	
	2001	2000
	----	----
Cash flows from financing activities:		
Decrease in term deposits	(4,345)	(14,
Decrease in term deposits due to sale of branch deposits	(5,958)	
Increase in demand deposits, NOW accounts and Savings accounts	10,845	77,
Decrease in demand deposits, NOW accounts and Savings accounts due to sale of branch deposits	(10,163)	
Increase (decrease) in mortgagors' escrow payments	(270)	
Increase (decrease) to borrowings	12,089	(29,
Net proceeds on stock offering	-	71,
Cash dividends	(649)	
ESOP purchase	-	(4,
Treasury stock purchase	(19,741)	

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Net cash provided by financing activities	(18,192)	100,
Net increase in cash and cash equivalents	(26,449)	6,
Cash and cash equivalents, beginning of year	70,267	19,
Cash and cash equivalents, end of period	\$ 43,818	\$ 25,
Supplemental disclosures of cash flows information:		
Cash paid for interest	\$ 18,315	\$ 14,
Cash paid for income taxes	\$ 2,292	\$ 1,

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 invests in marketable securities. Cambridgeport Bank is a Massachusetts-chartered savings bank with its headquarters located in Cambridge, Massachusetts. The Bank has four wholly owned subsidiaries, Temple Investment Corporation, River Investment Corporation, Cambridgeport Insurance Services, Inc. and Prospect Real Estate Investment Corp. 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. Prospect Real Estate Investment Corp. was established in April 2001 and holds certain mortgage loans originated by the Bank. In addition, the Bank is the sole member of Temple Realty LLC, which owns the Company's administrative center.

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

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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 June 30, 2001, the Company had outstanding commitments to originate loans amounting to approximately \$17.1 million, and unadvanced funds on construction loans and lines of credit amounting to approximately \$800,000 and \$169.8 million, respectively.

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

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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 six month period ended June 30, 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 company and no stock was outstanding.

4) 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.

5) Stock Repurchases

On February 22, 2001 the Company announced a repurchase program to acquire 372,141 shares of its common stock. The Company completed these repurchases on May 15, 2001. On June 6, 2001 the Company announced another repurchase program to acquire 352,460 shares of its common stock. This program was completed on June 8, 2001. The cost of these shares totaled \$14.3 million, or an average of \$19.72 per share. In addition, during the quarter ended March 31, 2001, the Company completed the purchase of the 297,713 shares authorized related to the RRP. The cost of these shares totaled \$5.4 million, or an average of \$18.32 per share.

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6) Loans

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

	June 2001 ----	December 31, 2000 ----
	(Unaudited)	
Real estate loans-		
Residential	\$347,930	\$353,518
Commercial	235,741	241,325
Home equity lines of credit	87,649	82,885
Construction	18,338	11,458

Total real estate loans	689,658	689,186
Commercial	1,644	1,083
Consumer	4,707	5,172

Total loans	696,009	695,441
Less-Allowance for possible loan losses	8,463	8,059

Total loans, net	\$687,546	\$687,382
	=====	

7) Deposits

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

	June 2001 ----	December 31, 2000 ----
	(Unaudited)	
Demand deposit accounts	\$ 46,826	\$ 46,138
NOW accounts	88,604	69,101
Regular savings accounts	53,510	51,864
Money market accounts	309,142	330,297

Total noncertificate accounts	498,082	497,400
Term certificates-		
Term certificates less than \$100,000	236,238	250,662
Term certificates of \$100,000 and over	62,080	57,959

Total term certificate accounts	298,318	308,621

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Total deposits	\$796,400	\$806,021
	=====	

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8) 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 Chairman 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 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)			
June 30, 2001:	(In Thousands)			

Investment securities available				
For sale and held to maturity	\$178,818	\$ 44,472	\$ (11,454)	\$211,836
Loans, net	687,546	7,206	(7,206)	687,546
Total assets	953,423	148,502	(109,689)	992,236
Total deposits (1)	796,400	-	-	796,400
Total liabilities	862,525	2,362	(9,823)	855,064
Total interest and dividend income	32,484	10,672	(9,024)	34,132
Total interest expense	18,235	7	(288)	17,954
Net interest income	14,249	10,665	(8,736)	16,178
Provision for possible loan losses	400	-	-	400

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Total noninterest income	2,541	-	-	2,541
Total noninterest expense	11,585	605	-	12,190
Net income	3,156	9,599	(8,736)	4,019

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	Community Banking	Other	Consolidation Adjustments	Consolidated
	-----	-----	-----	-----
			(Unaudited)	
June 30, 2000:			(In Thousands)	

Investment securities available				
For sale and held to maturity	\$128,957	\$ 41,469	\$ (5,666)	\$164,760
Loans, net	634,146	-	-	634,146
Total assets	830,257	156,538	(119,853)	866,942
Total deposits (1)	703,115	-	(18,544)	684,571
Total liabilities	740,814	2,110	(25,155)	717,769
Total interest and dividend income	27,442	1,313	-	28,755
Total interest expense	14,539	-	-	14,539
Net interest income	12,903	1,313	-	14,216
Provision for possible loan losses	416	-	-	416
Total noninterest income	1,117	-	-	1,117
Total noninterest expense	10,207	158	-	10,365
Net income	2,156	767	-	2,923