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FALMOUTH BANCORP INC
Form 10QSB
May 09, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(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 01-13465

Falmouth Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3337685
(I.R.S. Employer
Identification No.)

20 Davis Straits, Falmouth, MA 02540
(Address of principal executive offices)
(Zip Code)

(508) 548-3500
(Registrant's telephone number including area code)

NA
(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 requirement 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 March 31, 2001 -----
Common Stock, Par Value \$.01	1,023,838

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Transitional small business disclosure format:
Yes [] No [X]

FALMOUTH BANCORP, INC.
AND SUBSIDIARIES
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FORWARD LOOKING STATEMENTS

This Form 10-QSB contains certain forward-looking statements consisting of estimates with respect to the financial condition, results of operations and business of the Company and the Bank that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to: general and local economic conditions; changes in interest rates, deposit flows, demand for mortgages and other loans, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services.

Any or all of our forward-looking statements in this Form 10-QSB and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed.

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We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

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Part I. Item I. FALMOUTH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

March 31, 2001 and September 30, 2000

(unaudited)

	March 31, 2001 -----	September 30, 2000 -----
ASSETS		
Cash and due from banks	\$ 3,508,722	\$ 3,450,297
Federal funds sold	1,546,016	3,380,176

Total cash and cash equivalents	5,054,738	6,830,473
Investments in available-for-sale securities (at fair value)	9,262,351	7,807,742
Investments in held-to-maturity securities (fair values of \$8,435,455 as of March 31, 2001 and \$10,781,002 as of September 30, 2000)	8,397,157	10,776,000
Federal Home Loan Bank stock, at cost	878,000	720,700
Loans, net	111,361,645	105,731,509
Premises and equipment	1,938,934	1,991,077
Accrued interest receivable	821,610	750,690
Cooperative Central Bank Reserve Fund Deposit	395,395	395,395
Other assets	627,262	460,301

Total Assets	\$138,737,092	\$135,463,887
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 13,630,411	\$ 14,243,255
Interest-bearing	97,632,984	98,130,985

Total deposits	111,263,395	112,374,240
Securities sold under agreements to repurchase	761,276	863,943
Advances from Federal Home Loan Bank of Boston	8,310,201	3,851,961
Other liabilities	184,446	327,680

Total Liabilities	120,519,318	117,417,824

Minority preferred stockholders' equity in a subsidiary company	54,000	54,000

Stockholders' equity:		

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Preferred stock, par value \$.01 per share, authorized 500,000 shares; none issued		
Common stock, par value \$.01 per share, authorized 2,500,000 shares; issued 1,454,750 shares	14,547	14,547
Paid-in capital	13,825,289	13,901,452
Retained earnings	12,135,982	11,669,877
Unallocated Employee Stock Ownership Plan shares	(433,576)	(477,668)
Treasury stock (430,912 shares as of March 31, 2001; 418,912 shares as of September 30, 2000)	(7,021,473)	(6,850,722)
Unearned compensation	(140,541)	(291,097)
Accumulated other comprehensive income (loss)	(216,454)	25,674
	-----	-----
Total stockholders' equity	18,163,774	17,992,063
	-----	-----
Total liabilities and stockholders' equity	\$138,737,092	\$135,463,887
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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FALMOUTH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended		Six Months Ended
	March 31, 2001	March 31, 2000	March 31, 2001
	-----	-----	-----
Interest and dividend income:			
Interest and fees on loans	\$2,089,807	\$1,616,717	\$4,149,246
Interest and dividends on securities:			
Taxable	218,700	245,232	464,374
Dividends on marketable equity securities	26,418	25,802	57,163
Dividends on Cooperative Bank Investment and Liquidity Funds	7,672	7,717	15,417
Other interest	42,491	54,636	95,049
	-----	-----	-----
Total interest and dividend income	2,385,088	1,950,104	4,781,249
	-----	-----	-----
Interest expense:			
Interest on deposits	1,050,147	787,216	2,111,729
Interest on securities sold under agreement to repurchase	11,003	13,373	24,175
Interest on FHLB advances	91,541	73,237	142,925
	-----	-----	-----
Total interest expense	1,152,691	873,826	2,278,829

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Net interest and dividend income	1,232,397	1,076,278	2,502,420
Provision for loan losses	30,000	18,000	115,000
Net interest income after provision for loan losses	1,202,397	1,058,278	2,387,420
Other income:			
Service charges on deposit accounts	34,964	28,940	72,859
Securities gains, net	77,953	125,564	153,677
Gains (losses) on mortgages sold, net	(1,532)	-	16,330
Other income	59,854	45,451	135,897
Total other income	171,239	199,955	378,763
Other expense:			
Salaries and employee benefits	464,938	425,531	902,200
Occupancy expense	50,349	49,385	97,391
Equipment expense	42,568	41,727	86,700
Data processing expense	76,676	63,949	148,181
Directors' fees	13,650	12,050	28,550
Legal and professional fees	64,704	66,770	135,306
Other expenses	164,602	200,536	339,958
Total other expenses	877,487	859,948	1,738,286
Income before income taxes	496,149	398,285	1,027,897
Income taxes	178,475	136,903	367,038
Net income	\$ 317,674	\$ 261,382	\$ 660,859
Comprehensive income	\$ 208,996	\$ 350,305	\$ 418,731
Earnings per common share	\$ 0.33	\$ 0.26	\$ 0.67
Earnings per common share, assuming dilution	\$ 0.32	\$ 0.25	\$ 0.67

The accompanying notes are an integral part of these consolidated financial statements.

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FALMOUTH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

Six months ended March 31, 2001

	Common Stock	Paid-In Capital	Retained Earnings	Unallocated Employee Stock Ownership Plan Shares	Treasury Stock	Un
						Comp

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Balance, September 30, 2000	\$14,547	\$13,901,452	\$11,669,877	\$ (477,668)	\$ (6,850,722)	\$ (2,000,000)
Employee Stock Ownership Plan		20,449				
ESOP shares released				44,092		
Recognition and retention plan		57,457				
Distribution of RRP shares		(150,556)				
Purchase of treasury stock					(180,532)	
Exercise of stock options and related tax benefit		(3,513)			9,781	
Dividends declared (\$0.19 per share)				(194,754)		
Comprehensive income:						
Net income			660,859			
Net change in unrealized holding gain on available-for-sale securities						
Comprehensive Income						
Balance, March 31, 2001	\$14,547	\$13,825,289	\$12,135,982	\$ (433,576)	\$ (7,021,473)	\$ (1,000,000)

Six months ended March 31, 2000

	Common Stock	Paid-In Capital	Retained Earnings	Unallocated Employee Stock Ownership Plan Shares	Treasury Stock	Unallocated
Balance, September 30, 1999	\$14,547	\$13,907,812	\$10,818,456	\$ (565,853)	\$ (4,600,671)	\$ (4,000,000)
Employee Stock Ownership Plan		20,663	60			
ESOP shares released				44,092		
Recognition and retention plan		57,483				
Distribution of RRP shares		(156,587)				
Tax benefit from RRP						
Purchase of treasury stock					(2,112,473)	
Exercise of stock options and related tax benefit		(1,526)			13,078	
Dividends declared (\$0.15 per share)			(163,074)			
Comprehensive income:						
Net income			537,838			
Net change in unrealized holding gain on available-for-sale securities						
Comprehensive Income						
Balance, March 31, 2000	\$14,547	\$13,827,845	\$11,193,280	\$ (521,761)	\$ (6,700,066)	\$ (2,000,000)

The accompanying notes are an integral part of these consolidated financial statements.

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FALMOUTH BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	March 31, 2001	March 31, 2000
Cash flows from operating activities		
Net income	\$ 660,859	\$ 537,838
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of investment securities, net	(153,677)	(220,708)
Accretion of investment securities, net	(1,582)	(29,906)
Provision for loan loss	115,000	30,000
Change in unearned income	8,652	(27,407)
Gain on sales of loans	(16,330)	(1,711)
Depreciation and amortization	89,432	87,322
(Increase) decrease in accrued interest receivable	(70,920)	117,444
Increase in other assets	(5,542)	(4,491)
Recognition and retention plan (RRP)	57,457	57,483
Decrease in other liabilities	(143,234)	(49,592)
Minority interest in subsidiary	-	54,000
	540,115	550,272
Cash flows from investing activities:		
Purchase of available-for-sale securities	(2,789,641)	(1,127,633)
Proceeds from sales of available-for-sale securities	517,651	1,156,351
Proceeds from maturities of available-for-sale securities	550,717	6,432,052
Purchase of held-to-maturity securities	(4,636,256)	(2,986,154)
Proceeds from maturities of held-to-maturity securities	7,033,475	4,515,409
Purchase of Federal Home Loan Bank stock	(157,300)	-
Net increase in loans	(8,387,853)	(9,495,084)
Proceeds from the sale of loans	2,650,396	166,534
Capital expenditures	(37,290)	(87,317)
	(5,256,101)	(1,425,842)
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, NOW and savings accounts	(4,569,271)	2,920,522
Net increase in time deposits	3,458,426	3,188,258
Net (decrease) increase in securities sold under agreements to repurchase	(102,667)	246,496
Proceeds from Federal Home Loan Bank long-term advances	4,500,000	1,000,000
Repayments of Federal Home Loan Bank long-term advances	(2,041,760)	(3,039,214)
Net change in Federal Home Loan Bank short-term advances	2,000,000	87,000

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Proceeds from exercise of stock options	6,268	11,552
Dividends paid	(194,754)	(163,074)
Employee Stock Ownership Plan	20,449	20,663
Unallocated ESOP shares released	44,092	44,092
Purchase of treasury stock	(180,532)	(2,112,473)
	-----	-----
Net cash provided by financing activities	2,940,251	2,203,822
	-----	-----
(Decrease) increase in cash and cash equivalents	(1,775,735)	1,328,252
Cash and cash equivalents at beginning of period	6,830,473	7,277,360
	-----	-----
Cash and cash equivalents at end of period	\$ 5,054,738	\$ 8,605,612
	=====	=====
Supplemental disclosures		
Interest paid	\$ 2,278,829	\$ 1,735,594
	=====	=====
Income taxes paid	\$ 434,470	\$ 256,838
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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FALMOUTH BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation

The consolidated financial statements of Falmouth Bancorp, Inc. (the "Company") and its subsidiaries presented herein are unaudited and should be read in conjunction with the consolidated financial statements of the Company for the year ended September 30, 2000. The results of operations for the three-month and six month periods ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year. All material intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of results for the interim periods.

Note 2 - Accounting Policies

The accounting and reporting policies of the Company conform to generally accepted accounting principles and prevailing practices within the banking industry. The interim financial information should be read in conjunction with the Company's 2000 Annual Report contained on Form 10-KSB.

Management is required to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ significantly from those estimates.

Note 3 - Impact of New Accounting Standard

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". Statement No. 133, as amended by SFAS

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No. 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The Company adopted the statement as of October 1, 2000. The Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS No. 133, does not have a material effect on the Company's consolidated financial statements.

FASB has issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This replaces SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and rescinds SFAS Statement No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125." SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001; however, the disclosure provisions are effective for fiscal years ending after December 15, 2000. The Company has not yet quantified the remaining provisions effective in 2001; however, the Company does not expect that the adoption of this statement will have a material impact on its financial position or results of operations.

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Note 4 - Earnings per Share

EPS for the three months and six months ended March 31, 2001 and 2000 have been calculated according to the guidelines of Statement 128. ESOP shares are only considered outstanding for earnings per share calculations when they are committed to be released.

Reconciliation of the numerators and the denominators in the calculation of basic and diluted per share are as follows:

	Income (Numerator)	Shares (Denominator)	Per Sh Amou
	-----	-----	-----
 Three Months Ended March 31, 2001			
Basic EPS			
Net income and income available to common stockholders	\$317,674	975,829	\$0.3
Effect of dilutive securities options and warrants		22,532	

Diluted EPS			
Income available to common stockholders	\$317,674	998,361	\$0.3
		=====	
 Three Months Ended March 31, 2000			
Basic EPS			
Net income and income available to common stockholders	\$261,382	996,525	\$0.2
Effect of dilutive securities options and warrants		58,416	

Diluted EPS			
Income available to common stockholders	\$261,382	1,054,941	\$0.2
		=====	

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	Income (Numerator)	Shares (Denominator)	Per Sh Amou
	-----	-----	-----
Six Months ended March 31, 2001			
Basic EPS			
Net income and income available to common stockholders	\$660,859	979,304	\$0.6
Effect of dilutive securities options and warrants		14,081	

Diluted EPS			
Income available to common stockholders	\$660,859	993,385	\$0.6
		=====	
Six Months Ended March 31, 2000			
Basic EPS			
Net income and income available to common stockholders	\$537,838	1,034,951	\$0.5
Effect of dilutive securities options and warrants		7,792	

Diluted EPS			
Income available to common stockholders	\$537,838	1,042,743	\$0.5
		=====	

Note 5 - Dividends

On February 26, 2001, the Board of Directors of the Company declared a quarterly cash dividend of \$0.10 per share of common stock, which was paid on March 21, 2001 to stockholders of record on March 7, 2001.

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Part I. Item 2. Management's Discussion and
Analysis of Financial Condition and Operating Results

General

Falmouth Bancorp, Inc. (the "Company" or "Bancorp"), a Delaware corporation, is the holding company for Falmouth Co-operative Bank (the "Bank" or "Falmouth"), a Massachusetts chartered stock co-operative bank. At March 31, 2001, there were 1,023,838 shares outstanding. The Company's stock trades on the American Stock Exchange under the symbol "FCB".

The Company's sole business activity is ownership of the Bank. The Company also makes investments in long and short-term marketable securities and other liquid investments. The business of the Bank consists of attracting deposits from the general public and local businesses and using these funds to originate primarily residential and commercial real estate loans located in Falmouth, Massachusetts and surrounding areas and to invest in United States Government and Agency securities. To a lesser extent, the Bank engages in various forms of consumer and home equity lending. The Bank's business strategy is to operate as a profitable community bank dedicated to financing home ownership, small business, and consumer needs in its market area and to provide personal, high quality service to its customers. The Bank has two subsidiaries, Falmouth Securities Corporation, a Massachusetts corporation, which was established solely for the purpose of acquiring and holding investments that are permissible for banks to hold under Massachusetts law and Falmouth Capital Corporation, a real estate investment trust.

The Company had average shares outstanding of 975,829 at March 31,

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2001, as compared to 996,525 average shares outstanding at March 31, 2000. The Company has continued with its stock buy-back programs. At March 31, 2001, the Company had repurchased a total of 430,912 shares, or 29.62% of its common stock, leaving 1,023,838 shares issued and outstanding.

Comparison of Financial Condition at March 31, 2001 and September 30, 2000.

The Company's total assets increased by \$3.3 million or 2.4% for the six months ended March 31, 2001, from \$135.5 million at September 30, 2000 to \$138.7 million at March 31, 2001. Total deposits decreased \$1.1 million or 1.0%, from \$112.4 million at September 30, 2000 to \$111.3 million at March 31, 2001. This decrease was due, in part to a general slow-down in the economy and to seasonal withdrawals from retail checking, commercial checking, and regular savings accounts during the period. Total net loans were \$111.4 million or 100.0% of total deposits at March 31, 2001, as compared to \$105.7 million or 94.1% of total deposits at September 30, 2000, representing an increase of \$5.6 million for the period. This increase is due, in part, to existing lower mortgage rates and to the continued strong local real estate market driving single-family loan originations, as well as the Bank's commitment to increase market share. Investment securities were \$18.5 million or 13.4% of total assets at March 31, 2001, as compared to \$19.3 million or 14.3% of total assets at September 30, 2000. Investment securities decreased \$767,000 due, in part, to cash flows to fund loans, as well as net retail checking, commercial checking, and regular savings account withdrawals.

Borrowed funds from the Federal Home Loan Bank of Boston have increased from \$3.9 million at September 30, 2000 to \$8.3 million at March 31, 2001. The increase of \$4.6 million was utilized to fund loans and savings withdrawals. Maturing securities, for the most part, were re-invested to maintain an adequate securities portfolio while using lower cost FHLB borrowings for current liquidity needs.

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Securities sold under an agreement to repurchase (sweep accounts for commercial depositors) decreased from \$864,000 at September 30, 2000 to \$761,000 at March 31, 2001. The decrease was attributed to the seasonal needs of our commercial demand deposit customers.

Stockholders' equity was \$18.2 million at March 31, 2001, as compared to \$18.0 million at September 30, 2000, an increase of \$172,000. This change was primarily the result of an increase in retained earnings of \$466,000, which was off-set by additional treasury shares purchased of \$171,000 under the Company's stock repurchase programs and a reduction in accumulated other comprehensive income of \$242,000. The ratio of stockholders' equity to total assets was 13.10% at March 31, 2001, and the book value per share of common stock was \$17.74, compared to 13.28% and \$17.37, respectively, at September 30, 2000.

The ratio of the allowance for loan losses to total loans was .78% at March 31, 2001. Management believes the allowance will be adequate based upon, among other things, past loss experience, prevailing economic conditions, and the level of credit risk within the portfolio. However, the Bank may periodically provide additional provisions as deemed necessary to maintain a sufficient allowance for loan loss to total loan ratio. The Bank added \$115,000 to the allowance during the six month period ended March 31, 2001. The Bank plans to continue to set aside additional specific reserves for commercial loans and large residential mortgages.

Three Months Ended March 31, 2001 and 2000

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Net Income. The Company's net income for the three months ended March 31, 2001 was \$318,000 as compared to \$261,000 for the three months ended March 31, 2000. The increase in net income of \$57,000 was primarily due to an increase in interest and dividend income of \$435,000, off-set by an increase in interest expense of \$279,000, an increase in the provision for loan losses of \$12,000, a decrease in other income of \$29,000, an increase in other expenses of \$17,000 and an increase in income taxes of \$42,000. The annualized return on average assets (ROA) for the three months ended March 31, 2001 was 0.94%, an increase of 4 basis points, as compared to 0.90% for the same period of the prior year. Interest and dividend income increased, primarily, as the result of increased residential lending activity during the year. The increase in interest expense is primarily due to an \$12.3 million growth in savings deposits for the twelve months ended March 31, 2001, as well as an increase in Federal Home Loan Bank advances of \$4.8 million for the same period.

Interest and Dividend Income. Total interest and dividend income for the three months ended March 31, 2001 was \$2.4 million, an increase of \$435,000 as compared to \$2.0 million for the three-month period ended March 31, 2000. The increase in interest and dividend income was attributable to the increase in the loan portfolio that provided an increase in interest and fees on loans of \$473,000, which was off-set by a decrease in interest on debt securities and dividends on marketable equity securities of \$26,000 and a decrease in other interest of \$12,000.

Interest Expense. Total interest expense for the three months ended March 31, 2001 was \$1.2 million, as compared to \$874,000 for the same period of the prior year, an increase of \$279,000. This was the result of increased FHLB borrowings as well as slightly higher average interest rates during the period.

Net Interest and Dividend Income. Net interest and dividend income for the three-month period ended March 31, 2001 was \$1.2 million as compared to \$1.1 million for the three months ended March 31, 2000. The increase of \$156,000 was the result of a \$435,000 increase in interest and dividend income, offset by a \$279,000 increase in interest expense. The net interest margin for the three months ended March 31, 2001 was 3.84%, an increase of 12 basis points, as compared to 3.72% for the three months ended March 31, 2000. The increase in net interest margin was primarily the result of an increase in interest income.

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Provision for Loan Losses. The Bank added \$30,000 to its allowance for loan losses during the quarter ended March 31, 2001, as compared to \$18,000 for the quarter ended March 31, 2000. Management believes that, although the allowance is deemed adequate based on its delinquency and loan loss record, additional provisions may be added from time to time as the loan portfolio expands by loan type and volume, including expansion in the commercial loan portfolio. Net loans expanded from \$89.8 million at March 31, 2000, to \$111.4 million at March 31, 2001, an increase of 24.1%. The allowance for loan losses at March 31, 2001 was \$870,000 as compared to \$598,000 at March 31, 2000, an increase of \$272,000 or 45.5%. The increase of the allowance was disproportionate to the increase in total loans due to an increase in commercial loans that totaled \$4.4 million and \$3.7 million at March 31, 2001 and March 31, 2000 respectively, an increase of 18.9%, and management's desire to increase the loan loss allowance as a percentage of total loans. This increase will better align the Bank's allowance with its peer group. As of March 31, 2001, the Bank had no loans classified doubtful or loss and its allowance for loan losses was 0.78% of total loans.

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Other Income. Other income for the three-month period ended March 31, 2001 was \$171,000, as compared to \$200,000 for the three months ended March 31, 2000. The \$29,000 decrease was primarily the result of a decrease in net gains on the sale of mortgages of \$2,000 and a decrease in net gains realized from the sale of investment securities of \$48,000. The decrease was offset, in part, by an increase in service charge income of \$6,000 and an increase in other income of \$15,000.

Operating Expenses. Operating expenses for the three months ended March 31, 2001 were \$877,000, as compared to \$860,000 for the three months ended March 31, 2000. The \$17,000 increase was primarily due to the combination of an increase in salaries and employee benefits of \$38,000, an increase in occupancy expense of \$1,000, an increase in equipment expense of \$1,000, an increase in data processing expense of \$13,000, and an increase in Directors' fees of \$2,000, offset by a decrease in legal and professional costs of \$2,000 and a decrease in other expenses of \$36,000. The annualized ratio of operating expenses to average total assets for the three months ended March 31, 2001 was 2.58%, as compared to 2.95% for the three-month period ended March 31, 2000, a decrease of 37 basis points. Data Processing expense increased as a result of the addition of two ATMs to the Bank's electronic financial services networks as well as other internal upgrades incurred. Other expenses decreased, in part, due to the up front cost related to the formation of the Real Estate Investment Trust, which was formed during the three months ended March 31, 2000.

Six Months Ended March 31, 2001 and 2000

Net Income. The Company's net income for the six months ended March 31, 2001 was \$661,000 as compared to \$538,000 at March 31, 2000, an increase of 22.9% or \$123,000. Total interest and dividend income increased \$914,000, or 23.6% due, primarily, to increased loan activity. This increase was offset, in part, by increases in interest expense and operating costs. Security gains net, amounted to \$154,000 for the six months ended March 31, 2001, as compared to \$221,000 for six months ended March 31, 2000, a decrease of \$67,000. The current economic environment has facilitated Bank management's goal to increase mortgage loans funded by investment securities and FHLB borrowings.

Interest and Dividend Income. Total interest and dividend income for the six months ended March 31, 2001 was \$4.8 million, an increase of \$914,000 as compared to \$3.9 million for the six-month period ended March 31, 2000. The increase in interest and dividend income is attributable to growth in the loan portfolio that provided for an increase in interest and fee income of \$1.0 million. This was offset by a decrease in income on investment securities of \$57,000, a \$5,000 decrease in dividends on the Co-operative Bank Investment Fund, and a decrease in other interest of \$24,000. Management expects income derived from loan assets to continue to increase in the form of interest and fees on loans, with interest on investments remaining relatively constant as management strives to maintain its securities portfolio at its current level.

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Interest Expense. Interest expense for the six months ended March 31, 2001 was \$2.3 million, including \$143,000 in interest on FHLB advances, which is an increase of \$543,000 from \$1.7 million for the six months ended March 31, 2000. There was a \$560,000 increase in interest on deposits and a \$16,000 decrease in interest on borrowed funds. Additional FHLB borrowings may be utilized as an interim source of loan funding as interest expense on these funds remains low.

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Net Interest and Dividend Income. Net interest and dividend income for the six-month period ended March 31, 2001 was \$2.5 million as compared to \$2.1 million for the six months ended March 31, 2000. The net interest margin for the six months ended March 31, 2001 was 3.93%, an increase of 15 basis points as compared to 3.78% for the six months ended March 31, 2000. The annualized return on average assets (ROA) for the six-month period ended March 31, 2001 was 0.98%, an increase of 6 basis points, as compared to 0.92% for the same period of the prior year. The reason for the increase in the ROA was primarily due to the growth of the loan portfolio during the period.

Provision for Loan Losses. The Bank added \$115,000 to its allowance for loan loss account for the six months ended March 31, 2001, to compensate for the increase in the dollar growth of the loan portfolio. Management believes the provision to be adequate and commensurate with the level of credit risk.

Other Income. Other income for the six-month period ended March 31, 2001 was \$379,000 as compared to \$400,000 for the six months ended March 31, 2000. The \$21,000 decrease is primarily the result of a decrease of \$67,000 in securities gains net, on the sale of investment securities taken during the six months ended March 31, 2001, as compared to \$221,000 for the six months ended March 31, 2000. The period ended March 31, 2001 also showed \$16,000 in gains on the sale of loans as compared to \$2,000 in gains on the sale of loans for the same period of the previous year. Other income increased \$24,000 during the same six-month comparative periods.

Operating Expenses. Operating expenses for the six months ended March 31, 2001 were \$1.7 million as compared to \$1.6 million for the six months ended March 31, 2000. The \$103,000 increase was primarily due to an increase in salaries and employee benefits of \$71,000, an increase in equipment expense of \$6,000, and an increase in data processing expense of \$26,000. The ratio of annualized operating expenses to average total assets for the six months ended March 31, 2001 was 2.58% as compared to 2.79% for the six-month period ended March 31, 2000.

Liquidity and Capital Resources

The Bank's primary sources of funds consist of deposits, repayment and prepayment of loans and mortgaged-backed securities, maturities of investments and interest-bearing deposits, and funds provided from operations. While scheduled repayments of loans and mortgage-backed securities and maturities of investment securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses its liquidity resources principally to fund existing and future loan commitments, to fund net deposit outflows, to invest in other interest-earning assets, to maintain liquidity, and to meet operating expenses.

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The Bank is required to maintain adequate levels of liquid assets. This guideline, which may be varied depending upon economic conditions and deposit flows, is based upon a percentage of deposits and short-term borrowings. The Bank has historically maintained a level of liquid assets in excess of regulatory requirements. The Bank's liquidity ratio at March 31, 2001 was 18.27%.

A major portion of the Bank's liquidity consists of short-term securities obligations. The level of these assets is dependent on the Bank's operating, investing, lending and financing activities during any

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given period. At March 31, 2001, regulatory liquidity totaled \$21.4 million. The primary investing activities of the Bank include origination of loans and the purchase of investment securities.

Liquidity management is both a daily and long-term function of management. If the Bank requires funds beyond its ability to generate them internally, the Bank believes that it could borrow additional funds from the Federal Home Loan Bank of Boston (FHLB). At March 31, 2001, the Bank had outstanding advances from the FHLB of Boston in the amount of \$8.3 million in short and long-term borrowings. As these advances mature, they will be repaid or re-written as longer term matched borrowings which will assist the match of rate sensitive assets to rate sensitive liabilities.

At March 31, 2001, the Bank had \$4.0 million in outstanding residential and commercial commitments to originate loans, as well as \$16.3 million in unadvanced loan commitments. If the Bank anticipates that it may not have sufficient funds available to meet its current loan commitments it may commence further matched borrowing from the Federal Home Loan Bank of Boston. At March 31, 2000, certificates of deposit that are scheduled to mature in one year or less totaled \$46.9 million. Based on historical experience, management believes that a significant portion of such deposits will remain with the Bank.

At March 31, 2001 the Bank exceeded all of its regulatory capital requirements.

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OTHER INFORMATION

Part II.

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders ("Meeting") on January 16, 2001. All of the proposals submitted to stockholders and the tabulation of votes for each proposal is as follows:

1. Election of two candidates to the Board of Directors to serve for a three-year term.

The number of votes cast with respect to this matter were as follows:

,CAPTION>

Nominee	For	%	Withhold	%
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John J. Lynch	845,832	93.7	51,116	6.3
William E. Newton	848,995	94.0	48,953	6.0
Santo P. Pasqualucci	847,908	93.8	50,040	6.2

2. Ratification of the appointment of Shatswell, MacLeod & Company, P.C. as independent public accountants for the fiscal year ending September 30, 2001.

For	%	Against	%	Abstain	%
---	-	-----	-	-----	-
891,898	78.3	2,700	0.3	3,350	0.3

There were no broker non-votes with respect to the above proposals.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

None

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Falmouth Bancorp, Inc. is a publicly owned bank holding company and the parent corporation of Falmouth Co-operative Bank, a Massachusetts chartered stock co-operative bank offering traditional products and services. The Bank conducts business through its main office located at 20 Davis Straits, Falmouth, Massachusetts 02540, and its two branch locations in North and East Falmouth. The telephone number is (508) 548-3500.

SIGNATURES

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

FALMOUTH BANCORP, INC.
(Registrant)

Date: May 3, 2001

By: /s/ Santo P. Pasqualucci

Santo P. Pasqualucci
President and Chief Executive
Officer

Date: May 3, 2001

By: /s/ George E. Young, III

George E. Young, III
Vice President and Chief
Financial Officer

