BROOKLINE BANCORP INC
Form 10-Q
November 07, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o	**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 0-23695

Brookline Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**04-3402944** (I.R.S. Employer Identification No.)
160 Washington Street, Brookline, MA (Address of principal executive offices)	**02447-0469** (Zip Code)

(617) 730-3500
(Registrant s telephone number, including area code)

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

FORM 10-Q

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Part I - Financial Information

Item 1. Financial Statements

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands except share data)

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Cash and due from banks	$ 15,665	$ 18,237
Short-term investments	130,254	134,417
Securities available for sale	265,424	335,246
Securities held to maturity (market value of $203 and $242, respectively)	195	233
Restricted equity securities	26,563	28,567
Loans	1,892,087	1,792,062
Allowance for loan losses	(23,461)	(23,024)
Net loans	1,868,626	1,769,038
Accrued interest receivable	9,897	10,310
Bank premises and equipment, net	9,267	9,335
Deferred tax asset	10,936	11,036
Prepaid income taxes	1,089	1,801
Goodwill	42,545	42,545
Identified intangible assets, net of accumulated amortization of $6,115 and $4,604, respectively	6,837	8,348
Other assets	4,608	3,927
Total assets	$ 2,391,906	$ 2,373,040
LIABILITIES AND STOCKHOLDERS EQUITY		
Retail deposits	$ 1,244,642	$ 1,210,206
Brokered deposits	67,991	78,060
Borrowed funds	512,019	463,806
Subordinated debt	7,024	12,092
Mortgagors escrow accounts	5,429	5,114
Accrued expenses and other liabilities	21,997	19,494
Total liabilities	1,859,102	1,788,772
Minority interest in subsidiary	1,321	1,375
Stockholders equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued		
Common stock, $0.01 par value; 200,000,000 shares authorized; 63,256,281 shares and 62,989,384 shares issued, respectively	633	630
Additional paid-in capital	511,758	508,248
Retained earnings, partially restricted	70,109	96,229
Accumulated other comprehensive income (loss)	7	(640)
Treasury stock, at cost 3,922,911 shares and 1,405,611 shares, respectively	(47,815)	(18,144)
Unallocated common stock held by ESOP 588,500 shares and 629,081 shares, respectively	(3,209)	(3,430)

Total stockholders equity		531,483		582,893
Total liabilities and stockholders equity	$	2,391,906	$	2,373,040

See accompanying notes to the unaudited consolidated financial statements.

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands except share data)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	(unaudited)			
Interest income:				
Loans	$ 31,258	$ 29,154	$ 91,181	$ 81,356
Debt securities	3,342	3,774	10,682	11,033
Marketable equity securities	15	30	50	93
Restricted equity securities	469	763	1,353	1,074
Short-term investments	1,759	1,436	5,242	3,874
Total interest income	36,843	35,157	108,508	97,430
Interest expense:				
Retail deposits	11,476	9,523	33,332	25,354
Brokered deposits	1,019	968	3,092	1,605
Borrowed funds	6,211	6,256	17,371	17,313
Subordinated debt	140	236	531	667
Total interest expense	18,846	16,983	54,326	44,939
Net interest income	17,997	18,174	54,182	52,491
Provision for loan losses	1,503	813	3,860	2,420
Net interest income after provision for loan losses	16,494	17,361	50,322	50,071
Non-interest income:				
Fees and charges	926	829	3,217	2,362
Gains on securities, net				558
Other income	1	8	40	28
Total non-interest income	927	837	3,257	2,948
Non-interest expense:				
Compensation and employee benefits	5,227	5,027	15,712	14,462
Occupancy	854	837	2,545	2,396
Equipment and data processing	1,700	1,538	4,872	4,478
Professional services	462	365	1,477	1,007
Advertising and marketing	406	294	813	749
Amortization of identified intangibles	503	569	1,510	1,665
Other	1,243	1,002	3,521	2,577
Total non-interest expense	10,395	9,632	30,450	27,334
Income before income taxes and minority interest	7,026	8,566	23,129	25,685
Provision for income taxes	2,711	3,383	8,932	10,109
Net income before minority interest	4,315	5,183	14,197	15,576
Minority interest in earnings of subsidiary	66	74	154	141
Net income	$ 4,249	$ 5,109	$ 14,043	$ 15,435
Earnings per common share:				
Basic	$ 0.07	$ 0.08	$ 0.24	$ 0.25
Diluted	0.07	0.08	0.23	0.25

Weighted average common shares outstanding during the period:				
Basic	58,541,627	60,387,098	59,597,169	60,353,648
Diluted	59,020,681	61,060,561	60,171,865	61,064,942

See accompanying notes to the unaudited consolidated financial statements.

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	(unaudited)			
Net income	$ 4,249	$ 5,109	$ 14,043	$ 15,435
Other comprehensive income, net of taxes:				
Unrealized securities holding gains	1,559	2,306	1,025	1,311
Income tax expense	(563)	(847)	(370)	(467)
Net unrealized securities holding gains	996	1,459	655	844
Adjustment of accumulated obligation for postretirement benefits	(6)		(13)	
Income tax benefit	2		5	
Net adjustment of accumulated obligation for postretirement benefits	(4)		(8)	
Net unrealized holding gains	992	1,459	647	844
Less reclassification adjustment for gains included in net income:				
Realized gains				558
Income tax expense				200
Net reclassification adjustment				358
Net other comprehensive income	992	1,459	647	486
Comprehensive income	$ 5,241	$ 6,568	$ 14,690	$ 15,921

See accompanying notes to the unaudited consolidated financial statements.

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

Nine Months Ended September 30, 2007 and 2006 (Unaudited)

(Dollars in thousands)

	Common stock	Additional paid- in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Unearned compensation- recognition and retention plans	Unallocated common stock held by ESOP	Total stockholders equity
Balance at December 31, 2005	$ 630	$ 512,338	$ 121,042	$ (1,577)	$ (18,144)	$ (8,103)	$ (3,736)	$ 602,450
Net income			15,435					15,435
Other comprehensive income				486				486
Common stock dividends of $0.655 per share			(39,579)					(39,579)
Payment of dividend equivalent rights			(960)					(960)
Income tax benefit from vested recognition and retention plan shares and dividend payments on unexercised stock options and allocated ESOP shares		224						224
Transfer of unearned compensation under the recognition and retention plans to additional paid-in capital		(8,103)				8,103		
Compensation under recognition and retention plans		2,226						2,226
Common stock held by ESOP committed to be released (42,057 shares)		371					229	600
Balance at September 30, 2006	$ 630	$ 507,056	$ 95,938	$ (1,091)	$ (18,144)	$	$ (3,507)	$ 580,882

(Continued)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Unallocated common stock held by ESOP	Total stockholders equity
Balance at December 31, 2006	$ 630	$ 508,248	$ 96,229	$ (640)	$ (18,144)	$ (3,430)	$ 582,893
Net income			14,043				14,043
Other comprehensive income				647			647
Common stock dividends of $0.655 per share			(39,181)				(39,181)
Payment of dividend equivalent rights			(982)				(982)
Exercise of stock options (299,186 shares)	3	774					777
Treasury stock purchases (2,517,300 shares)					(29,671)		(29,671)
Reload options granted		81					81
Income tax benefit from vested recognition and retention plan shares and dividend payments on unexercised stock options and allocated ESOP shares		310					310
Compensation under recognition and retention plans		2,070					2,070
Forfeiture of unvested recognition and retention plan shares (23,460 shares)							
Common stock held by ESOP committed to be released (40,581 shares)		275				221	496
Balance at September 30, 2007	$ 633	$ 511,758	$ 70,109	$ 7	$ (47,815)	$ (3,209)	$ 531,483

See accompanying notes to the unaudited consolidated financial statements.

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Nine months ended September 30,	
	2007	**2006**
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 14,043	$ 15,435
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,860	2,420
Compensation under recognition and retention plans	2,070	2,226
Release of ESOP shares	496	600
Depreciation and amortization	1,092	1,058
Net amortization (accretion) of securities premiums and discounts	(810)	77
Amortization of deferred loan origination costs	7,553	6,214
Amortization of identified intangible assets	1,511	1,665
Accretion of acquisition fair value adjustments	(612)	(954)
Amortization of mortgage servicing rights	16	15
Net gains from sales of securities		(558)
Equity interest in earnings of other investment		(1)
Minority interest in earnings of subsidiary	154	141
Deferred income taxes	(265)	(501)
(Increase) decrease in:		
Accrued interest receivable	413	(833)
Prepaid income taxes	712	(1,690)
Other assets	(697)	50
Increase (decrease) in:		
Income taxes payable		(630)
Accrued expenses and other liabilities	2,330	1,446
Net cash provided from operating activities	31,866	26,180
Cash flows from investing activities:		
Proceeds from sales of securities available for sale		903
Proceeds from redemptions and maturities of securities available for sale	123,744	105,882
Proceeds from redemptions and maturities of securities held to maturity	38	165
Purchase of securities available for sale	(51,960)	(98,359)
Purchase of Federal Home Loan Bank of Boston stock		(5,486)
Proceeds from redemptions of Federal Home Loan Bank of Boston stock	2,004	
Net increase in loans	(110,445)	(62,980)
Purchase of bank premises and equipment	(1,072)	(516)
Acquisition, net of cash and cash equivalents acquired		(10,547)
Net cash used for investing activities	(37,691)	(70,938)

(Continued)

	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 (unaudited)
Cash flows from financing activities:		
Decrease in demand deposits and NOW, savings and money market savings accounts	$ (16,499)	$ (52,498)
Increase in retail certificates of deposit	50,974	72,138
Increase (decrease) in brokered certificates of deposit	(10,069)	78,096
Proceeds from Federal Home Loan Bank of Boston advances	739,500	2,697,500
Repayment of Federal Home Loan Bank of Boston advances	(691,257)	(2,619,414)
Repayment of subordinated debt	(5,000)	
Repayment of other borrowed funds of subsidiary		(95,410)
Increase in mortgagors escrow accounts	315	203
Income tax benefit from vested recognition and retention plan shares and dividend payments on unexercised stock options and allocated ESOP shares	310	224
Proceeds from exercise of stock options	777	
Reload stock options granted	81	
Purchase of treasury stock	(29,671)	
Payment of dividends on common stock	(39,181)	(39,579)
Payment of dividend equivalent rights	(982)	(960)
Payment of dividend to minority interest members of subsidiary	(208)	
Net cash (used for) provided from financing activities	(910)	40,300
Net decrease in cash and cash equivalents	(6,735)	(4,458)
Cash and cash equivalents at beginning of period	152,654	118,395
Cash and cash equivalents at end of period	$ 145,919	$ 113,937
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowed funds	$ 53,726	$ 43,332
Income taxes	8,175	11,978
Acquisition of Eastern Funding LLC:		
Assets acquired (excluding cash and cash equivalents)	$	111,709
Liabilities assumed		99,972
Minority interest in subsidiary		1,190

See accompanying notes to the unaudited consolidated financial statements.

BROOKLINE BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Nine Months Ended September 30, 2007 and 2006

(Unaudited)

(1) Basis of Presentation and New Accounting Pronouncement Adopted in 2007

Basis of Presentation

The consolidated financial statements include the accounts of Brookline Bancorp, Inc. (the Company) and its wholly owned subsidiaries, Brookline Bank (Brookline) and Brookline Securities Corp. Brookline includes the accounts of its wholly owned subsidiary, BBS Investment Corporation, and its 86.3% owned subsidiary, Eastern Funding LLC (Eastern). A controlling interest in Eastern was acquired on April 13, 2006. Included in the Company s earnings are the operating results of Eastern commencing in the 2006 second quarter. In the first quarter of 2006, the Company accounted for its investment in Eastern under the equity method.

The Company operates as one reportable segment for financial reporting purposes. All significant intercompany transactions and balances are eliminated in consolidation. Certain amounts previously reported have been reclassified to conform to the current year s presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included. Results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

New Accounting Pronouncement Adopted in 2007

Effective January 1, 2007, the Company adopted *Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes* . The interpretation requires that only tax positions that are more likely than not to be sustained upon a tax examination are to be recognized in a company s financial statements to the extent that the benefit is greater than 50% likely of being recognized. Adoption of FIN 48 did not have a material effect on the Company s financial position or results of operations.

(2) Investment Securities (Dollars in thousands)

Securities available for sale and held to maturity are summarized below:

	September 30, 2007			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Securities available for sale:				
Debt securities:				
U.S. Government-sponsored enterprises	$ 117,408	$ 268	$ 12	$ 117,664
Municipal obligations	5,606		58	5,548
Auction rate municipal obligations	13,050			13,050
Corporate obligations	4,846	2	93	4,755
Other obligations	500			500
Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises	88,372	275	104	88,543
Mortgage-backed securities issued by U.S. Government-sponsored enterprises	34,102	5	818	33,289
Total debt securities	263,884	550	1,085	263,349
Marketable equity securities	1,943	167	35	2,075
Total securities available for sale	$ 265,827	$ 717	$ 1,120	$ 265,424
Securities held to maturity:				
Mortgage-backed securities issued by U.S. Government-sponsored enterprises	$ 195	$ 8	$	$ 203

	December 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Debt securities:				
U.S. Government-sponsored enterprises	$ 213,528	$ 90	$ 247	$ 213,371
Municipal obligations	8,660		153	8,507
Auction rate municipal obligations	12,650			12,650
Corporate obligations	6,467	49	6	6,510
Other obligations	500			500
Collateralized mortgage obligations issued by U.S. Government-sponsored enterprises	52,126	21	176	51,971
Mortgage-backed securities issued by U.S. Government-sponsored enterprises.	40,209	7	1,154	39,062
Total debt securities	334,140	167	1,736	332,571
Marketable equity securities	2,535	178	38	2,675
Total securities available for sale	$ 336,675	$ 345	$ 1,774	$ 335,246
Securities held to maturity:				
Mortgage-backed securities issued by U.S. Government-sponsored enterprises	$ 233	$ 9	$	$ 242

Debt securities of U.S. Government-sponsored enterprises include obligations issued by Fannie Mae, Freddie Mac, Ginnie Mae, Federal Home Loan Banks and the Federal Farm Credit Bank. None of those obligations is backed by the full faith and credit of the U.S. Government except for mortgage-backed securities issued by Ginnie Mae amounting to $21 at September 30, 2007 and $38 at December 31, 2006.

(3) Loans (Dollars in thousands)

A summary of loans follows:

	September 30, 2007	December 31, 2006
Mortgage loans:		
One-to-four family	$ 298,759	$ 286,623
Multi-family	323,202	331,106
Commercial real estate	375,125	373,744
Construction and development	22,640	37,589
Home equity	34,227	36,432
Second	23,222	16,646
Total mortgage loans	1,077,175	1,082,140
Indirect automobile loans	605,912	540,094
Commercial loans Eastern	140,213	127,275
Other commercial loans	157,431	110,780
Other consumer loans	3,654	3,322
Total gross loans	1,984,385	1,863,611
Unadvanced funds on loans	(109,433)	(85,879)
Deferred loan origination costs:		
Indirect automobile loans	15,879	13,175
Commercial loans Eastern	873	991

Other		383		164
Total loans	$	1,892,087	$	1,792,062

(4) Allowance for Loan Losses (Dollars in thousands)

An analysis of the allowance for loan losses for the periods indicated follows:

	Nine month ended September 30, 2007	2006
Balance at beginning of period	$23,024	$22,248
Allowance obtained through acquisition		1,958
Provision for loan losses	3,701	2,420
Charge-offs	(3,954)	(2,063)
Recoveries	690	503
Balance at end of period	$23,461	$25,066

During the nine months ended September 30, 2007, the liability for unfunded credit commitments was increased to $1,445 at September 30, 2007 by a $159 charge to the provision for loan losses. Such liability, which is included in other liabilities, was $1,286 at December 31, 2006.

(5) Deposits (Dollars in thousands)

A summary of deposits follows:

	September 30, 2007	December 31, 2006
Demand checking accounts	$ 64,946	$ 65,926
NOW accounts	81,301	94,538
Savings accounts	65,524	66,339
Guaranteed savings accounts	21,132	32,725
Money market savings accounts	219,233	209,107
Retail certificate of deposit accounts	792,506	741,571
Total retail deposits	1,244,642	1,210,206
Brokered certificates of deposit	67,991	78,060
Total deposits	$ 1,312,633	$ 1,288,266

(6) Accumulated Other Comprehensive Income (Loss) (Dollars in thousands)

Accumulated other comprehensive income of $7 at September 30, 2007 was comprised of an unrealized loss on securities available for sale, net of income taxes, of $235 and an unrealized gain related to postretirement benefits, net of income taxes, of $242. Accumulated other comprehensive loss of $640 at December 31, 2006 was comprised of an unrealized loss on securities available for sale, net of income taxes, of $890 and an unrealized gain related to postretirement benefits, net of income taxes, of $250. At September 30, 2007 and December 31, 2006, the resulting net income tax (expense) benefit amounted to $(6) and $359, respectively.

(7) Commitments and Contingencies (Dollars in thousands)

Loan Commitments

At September 30, 2007, the Company had outstanding commitments to originate loans of $70,654, $9,640 of which were one-to-four family mortgage loans, $16,155 were commercial real estate mortgage loans, $20,768 were multi-family mortgage loans, $3,465 were commercial loans to condominium associations and $20,626 were commercial loans. Unused lines of credit available to customers were $54,927, of which $51,354 were equity lines of credit.

Legal Proceedings

On February 28, 2007, Brookline Bank received a complaint filed against it in the Superior Court for the Commonwealth of Massachusetts (the Action) by Carrie E. Mosca. Ms. Mosca defaulted on a loan obligation on an automobile that she co-owned. She alleges that the form of notice of sale of collateral that the Bank sent to her after she and the co-owner became delinquent on the loan obligation did not contain information required to be provided to a consumer under the Massachusetts Uniform Commercial Code. The Action purports to be brought on behalf of a class of individuals to whom the Bank sent the same form of notice in connection with transactions documented as consumer transactions during the four year period prior to the filing of the Action. The Action seeks statutory damages, an order restraining the Bank from future use of the form of notice sent to Ms. Mosca, an order barring the Bank from recovering any deficiency from other individuals to whom it sent the same form of notice and attorneys fees and costs. The Action is in the discovery phase. The Bank intends to vigorously defend the Action. The Company is unable at this time to form an estimate of the loss, if any, that may arise from this matter.

In addition to the above matter, the Company and its subsidiaries are involved in litigation that is considered incidental to the business of the Company. Management believes the results of such litigation will be immaterial to the consolidated financial condition or results of operations of the Company.

(8) Dividend Declaration

On October 18, 2007, the Board of Directors of the Company approved a regular quarterly dividend of $0.085 per share payable November 15, 2007 to stockholders of record on October 31, 2007.

(9) Share-Based Payment Arrangements (Dollars in thousands, except per share amounts)

Recognition and Retention Plans

The Company has two recognition and retention plans, the 1999 RRP and the 2003 RRP . Under both of the plans, shares of the Company s common stock were reserved for issuance as restricted stock awards to officers, employees and non-employee directors of the Company. Shares issued upon vesting may be either authorized but unissued shares or reacquired shares held by the Company as treasury shares. Any shares not issued because vesting requirements are not met will again be available for issuance under the plans. Shares awarded vest over varying time periods ranging from six months up to eight years for the 1999 RRP and from less than three months to over five years for the 2003 RRP. In the event a recipient ceases to maintain continuous service with the Company by reason of normal retirement (applicable to the 1999 RRP and in part to the 2003 RRP), death or disability, or following a change in control, RRP shares still subject to restriction will vest and be free of such restrictions.

Total expense for the RRP plans amounted to $666, $652, $2,070 and $2,226 for the three months and nine months ended September 30, 2007 and 2006, respectively. The compensation cost of non-vested RRP shares at September 30, 2007 is expected to be charged to expense as follows: $534 during the three month period ended December 31, 2007 and $2,135 and $143 during the years ended December 31, 2008 and 2009, respectively. As of September 30, 2007, the number of shares available for award under the 1999 RRP and the 2003 RRP were 29,774 shares and 131,060 shares, respectively.

Stock Option Plans

The Company has two stock option plans, the 1999 Option Plan and the 2003 Option Plan . Under both of the plans, shares of the Company s common stock were reserved for issuance to directors, employees and non-employee directors of the Company. Shares issued upon the exercise of a stock option may be either authorized but unissued shares or reacquired shares held by the Company as treasury shares. Any shares subject to an award which expire or are terminated unexercised will again be available for issuance under the plans. The exercise price of options awarded is the fair market value of the common stock of the Company on the date the award is made. Options vest over periods ranging from less than one month through over five years. Part of the options granted under the 1999 Option Plan and all of the options granted under the 2003 Option Plan include a reload feature whereby an optionee exercising an option by delivery of shares of common stock would automatically be granted an additional option at the fair market value of stock when such additional option is granted equal to the number of shares so delivered. If an individual to whom a stock option was granted ceases to maintain continuous service by reason of normal retirement, death or disability, or following a change in control, all options and rights granted and not fully exercisable become exercisable in full upon the happening of such an event and shall remain exercisable for a period ranging from three months to five years.

Total expense for the stock option plans amounted to $81 and none for the nine months ended September 30, 2007 and 2006, respectively.

Activity under the Company s stock option plans for the nine months ended September 30, 2007 was as follows:

Options outstanding at January 1, 2007		3,182,988
Reload options granted at:		
$ 12.46 per option		7,929
$ 10.69 per option		46,249
$ 10.87 per option		56,836
Cancelled reloaded options ($11.00 to $15.42 per option)		(16,849)
Forfeited options ($15.02 per option)		(80,500)
Options exercised at $4.944 per option		(402,271)
Options outstanding at September 30, 2007		2,794,382
Exercisable at September 30, 2007 at:		
$ 4.944 per share		1,369,297
$ 10.69 per share		46,249
$ 10.87 per share		56,836
$ 12.91 per share		41,000
$ 15.02 per share		1,277,000
		2,790,382
Aggregate intrinsic value of options outstanding	$	9,183
Weighted average exercise price per option	$	9.89
Weighted average remaining contractual life in years at end of period		3.68

As of September 30, 2007, the number of options available for award under the Company s 1999 Stock Option Plan and 2003 Stock Option Plan were 245,980 options and 1,218,000 options, respectively.

Employee Stock Ownership Plan

The Company maintains an ESOP to provide eligible employees the opportunity to own Company stock. Employees are eligible to participate in the Plan after reaching age twenty-one, completion of one year of service and working at least one thousand hours of consecutive service during the year. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax law limits.

A loan obtained by the ESOP from the Company to purchase Company common stock is payable in quarterly installments over 30 years and bears interest at 8.50% per annum. The loan can be prepaid without penalty. Loan payments are principally funded by cash contributions from the Bank, subject to federal tax law limits. The outstanding balance of the loan at September 30, 2007 and December 31, 2006, which was $3,814 and $4,002, respectively, is eliminated in consolidation.

Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid. Employees vest in their ESOP account at a rate of 20% annually commencing in the year of completion of three years of credited service or immediately if service is terminated due to death, retirement, disability or change in control. Dividends on released shares are credited to the participants ESOP accounts. Dividends on unallocated shares are generally applied towards payment of the loan. ESOP shares committed to be released are considered outstanding in determining earnings per share.

At September 30, 2007, the ESOP held 588,500 unallocated shares at an aggregate cost of $3,209; the market value of such shares at that date was $6,821. For the nine months ended September 30, 2007 and 2006, $496 and $600, respectively, was charged to compensation expense based on the commitment to release to eligible employees 40,581 shares and 42,057 shares in those respective periods.

(10) Postretirement Benefits (Dollars in thousands)

Postretirement benefits are provided for part of the annual expense of health insurance premiums for retired employees and their dependents. No contributions are made by the Company to invest in assets allocated for the purpose of funding this benefit obligation.

The following table provides the components of net periodic postretirement benefit costs for the three months and nine months ended September 30, 2007 and 2006:

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Service cost	$ 14	$ 14	$ 43	$ 42
Interest cost	11	12	33	35
Prior service cost	(7)	(6)	(21)	(17)
Actuarial gain	(3)	(1)	(1)	(2)
Net periodic benefit costs	$ 15	$ 19	$ 54	$ 58

Benefits paid amounted to $11 and $8 for the nine months ended September 30, 2007 and 2006, respectively.

(11) Stockholders Equity (Dollars in thousands, except per share amounts)

Capital Distributions and Restrictions Thereon

OTS regulations impose limitations on all capital distributions by savings institutions. Capital distributions include cash dividends, payments to repurchase or otherwise acquire the institution s shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The regulations establish three tiers of institutions. An institution, such as the Bank, that exceeds all capital requirements before and after a proposed capital distribution (Tier 1 institution) may, after prior notice but without the approval of the OTS, make capital distributions during a year up to 100% of its current year net income plus its retained net income for the preceding two years not previously distributed. Any additional capital distributions require OTS approval.

Common Stock Repurchases

During the three months and nine months ended September 30, 2007, 457,300 shares and 2,157,300 shares, respectively, of the Company s common stock were repurchased at an average cost of $10.56 and $11.79, respectively, inclusive of transaction costs.

As of June 30, 2007, the Company was authorized to repurchase up to 2,212,532 shares of its common stock. On July 19, 2007, the Board of Directors of the Company approved a program to repurchase an additional 2,000,000 shares of the Company s common stock. The new program will become effective upon completion of the buy back of 1,755,232 shares remaining as of September 30, 2007 under the previously approved existing repurchase program. Under both the previous and new repurchase programs, the Board of Directors has delegated to the discretion of the Company s senior management the authority to determine the timing of the repurchases and the prices at which the repurchases will be made.

Restricted Retained Earnings

As part of the stock offering in 2002 and as required by regulation, Brookline Bank established a liquidation account for the benefit of eligible account holders and supplemental eligible account holders who maintain their deposit accounts at

Brookline Bank after the stock offering. In the unlikely event of a complete liquidation of Brookline Bank (and only in that event), eligible depositors who continue to maintain deposit accounts at Brookline Bank would be entitled to receive a distribution from the liquidation account. Accordingly, retained earnings of the Company are deemed to be restricted up to the balance of the liquidation account. The liquidation account balance is reduced annually to the extent that eligible depositors have reduced their qualifying deposits as of each anniversary date. Subsequent increases in deposit account balances do not restore an account holder s interest in the liquidation account. The liquidation account totaled $36,512 at December 31, 2006.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company.

The following discussion contains forward-looking statements based on management s current expectations regarding economic, legislative and regulatory issues that may impact the Company s earnings and financial condition in the future. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Any statements included herein preceded by, followed by or which include the words may , could , should , will , would , believe , expect , anticipate , estimate , intend , plan , assume or s constitute forward-looking statements.

Forward-looking statements, implicitly and explicitly, include assumptions underlying the statements. While the Company believes the expectations reflected in its forward-looking statements are reasonable, the statements involve risks and uncertainties that are subject to change based on various factors, some of which are outside the control of the Company. The following factors, among others, could cause the Company s actual performance to differ materially from the expectations, forecasts and projections expressed in the forward-looking statements: general and local economic conditions, changes in interest rates, demand for loans, real estate values, deposit flows, regulatory considerations, competition, technological developments, retention and recruitment of qualified personnel, and market acceptance of the Company s pricing, products and services.

Executive Level Overview

The following is a summary of operating and financial condition highlights as of and for the three months and nine months ended September 30, 2007 and 2006.

Operating Highlights

	Three months ended September 30,	Nine months ended September 30,