

CHICOPEE BANCORP, INC.  
Form 10-Q  
August 08, 2012  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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: 000-51996

CHICOPEE BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Massachusetts  
(State or other jurisdiction of incorporation or organization)

20-4840562  
(I.R.S. Employer Identification No.)

70 Center Street, Chicopee, Massachusetts  
(Address of principal executive offices)

01013  
(Zip Code)

(413) 594-6692  
(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large Accelerated Filer [ ]

Accelerated Filer [X]

Non-Accelerated Filer [ ]

Smaller Reporting Company [ ]

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

Yes [ ] No [X]

As of August 1, 2012, there were 5,449,230 shares of the Registrant's Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(Dollars In Thousands)

ASSETS	June 30, 2012 (Unaudited)	December 31, 2011
Cash and due from banks	\$18,350	\$10,665
Federal funds sold	6,874	50,457
Interest-bearing deposits with the Federal Reserve Bank of Boston	30,150	-
Total cash and cash equivalents	55,374	61,122
Securities available-for-sale, at fair value	584	613
Securities held-to-maturity, at cost (fair value \$65,342 and \$80,607 at June 30, 2012 and December 31, 2011, respectively)	58,614	73,852
Federal Home Loan Bank stock, at cost	4,277	4,489
Loans, net of allowance for loan losses (\$4,482 at June 30, 2012 and \$4,576 at December 31, 2011)	454,084	443,471
Loans held for sale	525	1,635
Other real estate owned	1,325	913
Mortgage servicing rights	371	344
Bank owned life insurance	13,619	13,427
Premises and equipment, net	9,862	9,853
Accrued interest and dividends receivable	1,521	1,527
Deferred income tax asset	2,903	2,893
FDIC prepaid insurance	641	824
Other assets	1,166	1,343
Total assets	\$604,866	\$616,306
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Demand deposits	\$72,613	\$68,799
NOW accounts	32,915	26,747
Savings accounts	49,168	47,122
Money market deposit accounts	100,847	97,606
Certificates of deposit	199,033	213,103
Total deposits	454,576	453,377
Securities sold under agreements to repurchase	7,177	12,340
Advances from Federal Home Loan Bank	54,100	59,265
Accrued expenses and other liabilities	428	542
Total liabilities	516,281	525,524

## Stockholders' equity

Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at June 30, 2012 and December 31, 2011)	72,479	72,479
Treasury stock, at cost (1,973,444 shares at June 30, 2012 and 1,703,065 shares at December 31, 2011)	(26,045 )	(22,190 )
Additional paid-in-capital	3,097	2,800
Unearned compensation (restricted stock awards)	(163 )	(546 )
Unearned compensation (Employee Stock Ownership Plan)	(4,017 )	(4,166 )
Retained earnings	43,256	42,408
Accumulated other comprehensive loss	(22 )	(3 )
Total stockholders' equity	88,585	90,782
Total liabilities and stockholders' equity	\$604,866	\$616,306

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In Thousands, Except for Number of Shares and Per Share Amounts)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 5,672	\$5,868	\$11,357	\$11,677
Interest and dividends on securities	412	403	824	770
Other interest-earning assets	18	10	38	22
Total interest and dividend income	6,102	6,281	12,219	12,469
<b>Interest expense:</b>				
Deposits	1,127	1,351	2,272	2,725
Securities sold under agreements to repurchase	4	10	8	19
Other borrowed funds	353	431	718	869
Total interest expense	1,484	1,792	2,998	3,613
Net interest income	4,618	4,489	9,221	8,856
Provision for loan losses	64	119	71	352
Net interest income after provision for loan losses	4,554	4,370	9,150	8,504
<b>Non-interest income:</b>				
Service charges, fees and commissions	533	444	1,074	910
Loan sales and servicing, net	114	50	268	198
Net gain on sales of securities available-for-sale	-	-	-	12
Net loss on other real estate owned	-	-	(108 )	(63 )
Income from bank owned life insurance	96	97	192	195
Other non-interest income	34	-	34	-
Total non-interest income	777	591	1,460	1,252
<b>Non-interest expenses:</b>				
Salaries and employee benefits	2,846	2,659	5,617	5,498
Occupancy expenses	364	383	760	830
Furniture and equipment	296	262	575	512
FDIC insurance assessment	89	166	183	269
Data processing	270	287	585	580
Professional fees	146	150	312	293
Advertising	149	126	299	253
Stationery, supplies and postage	72	94	180	176
Other non-interest expense	590	546	1,145	1,009
Total non-interest expenses	4,822	4,673	9,656	9,420

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Income before income taxes	509	288	954	336
Income tax expense (benefit)	57	(18 )	106	(14 )
Net income	\$ 452	\$306	\$848	\$350

Earnings per share:

Basic	\$ 0.09	\$0.06	\$0.17	\$0.06
Diluted	\$ 0.09	\$0.06	\$0.17	\$0.06

Adjusted weighted average shares  
outstanding:

Basic	4,946,039	5,372,770	5,014,369	5,396,871
Diluted	4,989,071	5,415,769	5,050,777	5,432,708

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In Thousands)  
(Unaudited)

	Three Months Ended June 30,	
	2012	2011
Net income	\$ 452	\$ 306
Other comprehensive income, net of tax		
Unrealized losses on securities:		
Unrealized holding losses arising during period	(42 )	(24 )
Tax effect	15	8
Other comprehensive loss	(27 )	(16 )
Comprehensive income	\$ 425	\$ 290

	Six Months Ended June 30,	
	2012	2011
Net income	\$ 848	\$ 350
Other comprehensive income, net of tax		
Unrealized losses on securities:		
Unrealized holding losses arising during period	(29 )	(18 )
Less: reclassification adjustments for gains included in		
net income	-	(12 )
Tax effect	10	10
Other comprehensive loss	(19 )	(20 )
Comprehensive income	\$ 829	\$ 330

See accompanying notes to unaudited consolidated financial statements.



CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Six Months Ended June 30, 2012 and 2011  
(Dollars In Thousands)  
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2011	\$ 72,479	\$ (22,190)	\$ 2,800	\$ (546 )	\$ (4,166 )	\$ 42,408	\$ (3 )	\$ 90,782
Comprehensive income:								
Net income	-	-	-	-	-	848	-	848
Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of \$10)	-	-	-	-	-	-	(19 )	(19 )
Total comprehensive income								829
Treasury stock purchased (270,379 shares)	-	(3,855 )	-	-	-	-	-	(3,855 )
Change in unearned compensation:								
Stock option expense (net of income tax benefit of \$45)	-	-	234	-	-	-	-	234
Restricted stock award expense	-	-	-	383	-	-	-	383
Common stock held by ESOP committed to be released	-	-	63	-	149	-	-	212
Balance at June 30, 2012	\$ 72,479	\$ (26,045)	\$ 3,097	\$ (163 )	\$ (4,017 )	\$ 43,256	\$ (22 )	\$ 88,585

Balance at December 31, 2010	\$ 72,479	\$ (18,295)	\$ 2,255	\$ (1,431 )	\$ (4,463 )	\$ 41,308	\$ 29	\$ 91,882
Comprehensive income:								
Net income	-	-	-	-	-	350	-	350
Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of \$10)	-	-	-	-	-	-	(20 )	(20 )
Total comprehensive income								330
Treasury stock purchased (145,271 shares)	-	(2,057 )	-	-	-	-	-	(2,057 )
Change in unearned compensation:								
Stock option expense (net of income tax benefit of \$43)	-	-	199	-	-	-	-	199
Restricted stock award expense	-	-	-	498	-	-	-	498
Common stock held by ESOP committed to be released	-	-	60	-	148	-	-	208
Balance at June 30, 2011	\$ 72,479	\$ (20,352)	\$ 2,514	\$ (933 )	\$ (4,315 )	\$ 41,658	\$ 9	\$ 91,060

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
	(In Thousands)	
Cash flows from operating activities:		
Net income	\$848	\$350
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	503	481
Provision for loan losses	71	352
Increase in cash surrender value of life insurance	(192 )	(195 )
Net realized gain on sales of securities available-for-sale	-	(12 )
Realized gains on sales of mortgage loans	(115 )	(69 )
Decrease in other assets	179	97
Decrease in accrued interest and dividends receivable	6	219
Decrease in FDIC prepaid insurance	183	269
Net change in loans originated for resale	1,110	1,818
Net loss on sales of other real estate owned	108	63
Decrease in other liabilities	(114 )	(24 )
Change in unearned compensation	829	905
Net cash provided by operating activities	3,416	4,254
Cash flows from investing activities:		
Additions to premises and equipment	(419 )	(178 )
Loan originations and principal collections, net	(11,203 )	(13,667 )
Proceeds from sales of other real estate owned	-	162
Proceeds from sales of securities available-for-sale	-	17
Purchases of securities available-for-sale	-	(304 )
Purchases of securities held-to-maturity	(25,922 )	(55,627 )
Maturities of securities held-to-maturity	40,221	49,852
Proceeds from principal paydowns of securities held-to-maturity	930	1,101
Proceeds from sale of FHLB stock	213	-
Net cash provided (used) by investing activities	3,820	(18,644 )
Cash flows from financing activities:		
Net increase in deposits	1,199	12,214
Net (decrease) increase in securities sold under agreements to repurchase	(5,163 )	1,332
Payments on long-term FHLB advances	(5,165 )	(6,378 )
Stock purchased for treasury	(3,855 )	(2,057 )
Net cash (used) provided by financing activities	(12,984 )	5,111
Net decrease in cash and cash equivalents	(5,748 )	(9,279 )
Cash and cash equivalents at beginning of period	61,122	35,873
Cash and cash equivalents at end of period	\$55,374	\$26,594

## Supplemental cash flow information:

Interest paid on deposits	\$2,272	\$2,725
Interest paid on borrowings	801	888
Income taxes paid	315	115
Transfers from loans to other real estate owned	520	468
Gain on acquisition of other real estate owned	34	-

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements  
June 30, 2012 and 2011

1. Basis of Presentation

Chicopee Bancorp, Inc. (the “Corporation”) has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the “Bank”) and Chicopee Funding Corporation (collectively, the “Company”). The Corporation was formed on March 14, 2006 and became the holding company for the Bank upon completion of the Bank’s conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include its wholly-owned subsidiaries and a 99% owned subsidiary. The consolidated financial statements of the Company as of June 30, 2012 and for the periods ended June 30, 2012 and 2011 included herein are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial condition, results of operations, changes in stockholders’ equity and cash flows, as of and for the periods covered herein, have been made. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2011 included in the Company’s Annual Report on Form 10-K.

The results for the three and six month interim periods ended June 30, 2012 are not necessarily indicative of the operating results for a full year.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the adjusted weighted-average number of common shares outstanding during the period. The adjusted outstanding common shares equals the gross number of common shares issued less average treasury shares, unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan (“ESOP”), and average dilutive restricted stock awards under the 2007 Equity Incentive Plan. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and certain stock awards and are determined using the treasury stock method.

Earnings per share is computed as follows:

	Three Months Ended June		Six Months Ended June	
	2012	2011	2012	2011
Net income (in thousands)	\$ 452	\$ 306	\$ 848	\$ 350
Weighted average number of common shares issued	7,439,368	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(2,021,778)	(1,511,562)	(1,953,296)	(1,482,885)
Less: average number of unallocated ESOP shares	(416,605 )	(446,363 )	(416,605 )	(446,363 )
Less: average number of dilutive restricted stock awards	(54,946 )	(108,673 )	(55,098 )	(113,249 )
Adjusted weighted average number of common				

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shares outstanding	4,946,039	5,372,770	5,014,369	5,396,871
Plus: dilutive outstanding restricted stock awards	43,032	42,999	36,408	35,837
Plus: dilutive outstanding stock options	-	-	-	-
Weighted average number of diluted shares outstanding	4,989,071	5,415,769	5,050,777	5,432,708
Earnings per share:				
Basic- common stock	\$ 0.09	\$ 0.06	\$ 0.17	\$ 0.06
Basic- unvested share-based payment awards	\$ 0.09	\$ 0.06	\$ 0.17	\$ 0.06
Diluted- common stock	\$ 0.09	\$ 0.06	\$ 0.17	\$ 0.06
Diluted- unvested share-based payment awards	\$ 0.09	\$ 0.06	\$ 0.17	\$ 0.06

There were 619,198 and 562,698 stock options that were not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2012 and 2011, respectively, because their effect was anti-dilutive.

## 3. Equity Incentive Plan

## Stock Options

Under the Company's 2007 Equity Incentive Plan (the "Plan") approved by the Company's stockholders at the annual meeting of the Company's stockholders on May 30, 2007, the Company may grant options to directors, officers and employees for up to 743,936 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price for each option is equal to the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. The stock options vest over five years in five equal installments on each anniversary of the date of grant.

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for options granted during the year ended December 31, 2011, and the six months ended June 30, 2012:

	Six Months Ended June 30, 2012		Year Ended December 31, 2011	
Expected dividend yield	0.86	%	0.86	%
Weighted average expected term	6.5	years	6.5	years
Weighted average expected volatility	23.27	%	25.37	%
Weighted average risk-free interest rate	1.40	%	2.92	%

Expected volatility is based on the historical volatility of the Company's stock and other factors. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The Company uses historical data, such as option exercise and employee termination rates, to calculate the expected option life.

A summary of options under the Plan as of June 30, 2012, and changes during the six months then ended, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2011	556,198	\$ 14.23	5.74	\$ 25
Granted	63,000	14.20	9.56	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at June 30, 2012	619,198	\$ 14.23	5.68	\$ 154
Exercisable at June 30, 2012	429,357	\$ 14.26	5.14	\$ 93
Exercisable at June 30, 2011	320,417	\$ 14.25	5.93	\$ 16

The Company granted 63,000 stock options in the six months ended June 30, 2012 with a fair value of \$3.32. The weighted-average grant-date fair value of options granted during 2011 was \$4.07. The weighted average grant-date fair value of the options outstanding and exercisable at June 30, 2012 and December 31, 2011 was \$3.84 and \$3.91, respectively. For the six months ended June 30, 2012 and 2011, share based compensation expense applicable to

options granted under the Plan was \$234,000 and \$199,000 and the related tax benefit was \$45,000 and \$43,000, respectively. As of June 30, 2012, unrecognized stock-based compensation expense related to non-vested options amounted to \$290,000. This amount is expected to be recognized over a period of 3.79 years.



## Stock Awards

Under the Company's 2007 Equity Incentive Plan, the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year beginning on the first anniversary of the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The weighted-average grant-date fair value of stock awards as of June 30, 2012 is \$14.28. The Company recorded compensation cost related to stock awards of approximately \$383,000 and \$498,000 in the six months ended June 30, 2012 and 2011, respectively. Stock awards with a fair value of \$910,000, and \$651,000 have vested during the years ended December 31, 2011 and 2010, respectively. No stock awards were granted prior to July 1, 2007. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of \$14.08. There were no awards granted by the company during the six months ended June 30, 2012. As of June 30, 2012, unrecognized stock-based compensation expense related to non-vested restricted stock awards amounted to \$75,000. This amount is expected to be recognized over a period of 1.07 years.

A summary of the status of the Company's stock awards as of June 30, 2012, and changes during the six months ended June 30, 2012, is as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested Shares		
Outstanding at December 31, 2011	55,346	\$ 14.28
Granted	-	-
Vested	400	14.08
Forfeited	-	-
Outstanding at June 30, 2012	54,946	\$ 14.28

## 4. Long-term Incentive Plan

On March 13, 2012, the Company adopted the Chicopee Bancorp, Inc. 2012 Phantom Stock Unit Award and Long-Term Incentive Plan (the "Plan"), effective as of January 1, 2012, to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interest with those of the Company's shareholders.

A total of 150,000 phantom stock units will be available for awards under the Plan. The only Awards that may be granted under the Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company's stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. The Plan year shall be January 1, 2012 to December 31, 2012. Unless the Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Plan for the six months ended June 30, 2012 was \$27,000.

## 5. Recent Accounting Pronouncements (Applicable to the Company)

In January 2010, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements", to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures regarding transfers of assets and liabilities between Level 1 (quoted prices in active market

for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities, separately reporting purchases, sales, issuance, and settlements, for assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance is effective for annual reporting periods that begin after December 15, 2009, and for interim periods within those annual reporting periods except for the changes to the disclosure of rollforward activities for any Level 3 fair value measurements, which are effective for annual reporting periods that begin after December 15, 2010, and for interim periods within those annual reporting periods. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-03, “Transfer and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements”. This ASU removes from the assessment of effective control the criterion relating to the transferor’s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The guidance is effective for first interim and annual reporting periods ending after December 15, 2011. The adoption of this new guidance did not have a material effect on the Company’s consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, “A Creditor’s Determination of whether a Restructuring Is a Troubled Debt Restructuring”. The new guidance clarifies when a loan modification or restructuring is a troubled debt restructuring (“TDR”) in order to address current diversity in practice and lead to more consistent application of accounting principles generally accepted in the United States of America. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. Additionally, the guidance clarifies that a creditor is precluded from using the effective interest rate test in the debtor’s guidance on restructuring of payables when evaluating whether a restructuring constitutes a TDR. The guidance was effective for interim and annual reporting periods beginning on or after June 15, 2011. The adoption of this new guidance did not have a material effect on the Company’s consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS”. This ASU clarifies how to measure fair value, but does not require additional fair value measurement and is not intended to affect current valuation practices outside of financial reporting. However, additional information and disclosure will be required for transfers between Level 1 and Level 2, the sensitivity of a fair value measurement categorized as Level 3, and the categorization of items that are not measured at fair value by level of the fair value hierarchy. The guidance is effective during interim and annual reporting periods beginning after December 15, 2011. The adoption of this new guidance did not have a material effect on the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income”. This ASU will, “require that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income.” This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this new guidance did not have a material effect on the Company’s consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05”, which defers the effective date of a requirement in ASU 2011-05 related to reclassifications of items out of accumulated other comprehensive income. The deferral in the effective date was made to allow the FASB time to redilberate whether to require presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented.

## 6. Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the current period’s presentation. These reclassifications had no effect on the net income previously reported.



## 7. Investment Securities

The following table sets forth, at the dates indicated, information regarding the amortized cost and fair values, with gross unrealized gains and losses of the Company's investment securities:

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
<b>Securities available-for-sale</b>				
Marketable equity securities	\$ 618	\$ 18	\$ (52 )	\$ 584
Total securities available-for-sale	\$ 618	\$ 18	\$ (52 )	\$ 584
<b>Securities held-to-maturity</b>				
U.S. Treasury securities	\$ 15,689	\$ -	\$ (1 )	\$ 15,688
Corporate and industrial revenue bonds	31,153	6,646	-	37,799
Certificates of deposit	10,222	4	-	10,226
Collateralized mortgage obligations	1,550	79	-	1,629
Total securities held-to-maturity	\$ 58,614	\$ 6,729	\$ (1 )	\$ 65,342
<b>Non-marketable securities</b>				
Federal Home Loan Bank stock	\$ 4,277	\$ -	\$ -	\$ 4,277
Banker's Bank stock	183	-	-	183
Total non-marketable securities	\$ 4,460	\$ -	\$ -	\$ 4,460
	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
<b>Securities available-for-sale</b>				
Marketable equity securities	\$ 618	\$ 28	\$ (33 )	\$ 613
Total securities available-for-sale	\$ 618	\$ 28	\$ (33 )	\$ 613
<b>Securities held-to-maturity</b>				
U.S. Treasury securities	\$ 26,998	\$ 1	\$ (1 )	\$ 26,998
Corporate and industrial revenue bonds	31,576	6,643	-	38,219
Certificates of deposit	13,206	7	-	13,213
Collateralized mortgage obligations	2,072	105	-	2,177
Total securities held-to-maturity	\$ 73,852	\$ 6,756	\$ (1 )	\$ 80,607

Non-marketable securities				
Federal Home Loan Bank stock	\$ 4,489	\$ -	\$ -	\$ 4,489
Banker's Bank stock	183	-	-	183
Total non-marketable securities	\$ 4,672	\$ -	\$ -	\$ 4,672

At June 30, 2012 and December 31, 2011, securities with an amortized cost of \$12.8 million and \$25.5 million, respectively, were pledged as collateral to support securities sold under agreements to repurchase.

The amortized cost and estimated fair value of debt securities by contractual maturity at June 30, 2012 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-Maturity	
	Amortized	
	Cost	Fair Value
	(In Thousands)	
Within 1 year	\$ 26,811	\$ 26,826
From 1 to 5 years	2,126	2,494
From 5 to 10 years	9,784	10,853
Over 10 years	19,893	25,169
	\$ 58,614	\$ 65,342

#### Unrealized Losses on Investment Securities

Management conducts, at least on a monthly basis, a review of its investment portfolio including available-for-sale and held-to-maturity securities to determine if the value of any security has declined below its cost or amortized cost and whether such security is other-than-temporarily impaired (“OTTI”). Securities are evaluated individually based on guidelines established by the FASB and the internal policy of the Company and include but are not limited to: (1) intent and ability of the Company to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value; (2) percentage and length of time which an issue is below book value; (3) financial condition and near-term prospects of the issuer; (4) whether the debtor is current on contractually obligated interest and principal payments; (5) the volatility of the market price of the security; and (6) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred, including the expectation of receipt of all principal and interest due.

As of June 30, 2012 and December 31, 2011, management determined that there were no securities other-than-temporarily impaired.

The following table presents the fair value of investments with continuous unrealized losses as of June 30, 2012 and December 31, 2011:

	June 30, 2012					
	Less Than Twelve Months		Twelve Months and Over		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Marketable equity securities	\$288	\$(17 )	\$219	\$(35 )	\$507	\$(52 )
U.S. Treasury securities	6,692	(1 )	-	-	6,692	(1 )
Total temporarily impaired securities	\$6,980	\$(18 )	\$219	\$(35 )	\$7,199	\$(53 )

	December 31, 2011					
	Less Than Twelve Months		Twelve Months and Over		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

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	Value	Losses		Value	Losses	Value	Losses
Marketable equity securities	\$221	\$(33 )	\$-	\$-	\$221	\$(33 )	
U.S. Treasury securities	13,998	(1 )	-	-	13,998	(1 )	
Total temporarily impaired securities	\$14,219	\$(34 )	\$-	\$-	\$14,219	\$(34 )	

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#### U.S. Treasury Securities

Unrealized losses within the U.S. Treasury securities portfolio at June 30, 2012, related to three Treasury securities, which all had losses for less than 12 months. At December 31, 2011, unrealized losses related to five U.S. Treasury securities which all had losses for less than 12 months. Management deems these losses to be immaterial.

#### Collateralized Mortgage Obligations (“CMO”)

As of June 30, 2012, the Company has 12 CMO bonds, or nine individual issues, with an aggregate book value of \$1.5 million, which included one bond, with a FICO score less than 650. This risk is mitigated by loan-to-value ratios of less than 65%. Since the purchase of these bonds, interest payments have been current and the Company expects to receive all principal and interest due.

#### Marketable Equity Securities

Unrealized losses within the marketable equity securities portfolio at June 30, 2012 and December 31, 2011, related to eight securities issued by two companies in the financial industry. As of June 30, 2012, three out of the eight securities had unrealized losses for more than 12 months of \$35,000, or 13.8%. In reviewing these marketable securities for OTTI, it was determined that there was no impairment. Management will continue to conduct, on at least a monthly basis, a review of its investment portfolio to determine if the value of any security has declined below its cost and whether such security is other-than-temporarily impaired.

#### Non-Marketable Securities

The Company is a member of the Federal Home Loan Bank (“FHLB”). The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Company must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Company’s level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. As of June 30, 2012 and December 31, 2011, the Company’s investment in FHLB stock totaled \$4.3 million, and \$4.5 million, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. However, in the first quarter of 2009 the FHLB announced a moratorium on such redemptions in order to preserve its capital in response to current market conditions and declining retained earnings. The minimum required shares are redeemable, subject to certain limitations, five years following termination of FHLB membership. The Company has no intention of terminating its FHLB membership. As of June 30, 2012 and December 31, 2011, the Company received \$11,000, and \$13,000, in dividend income from its FHLB stock investment, respectively. On February 22, 2012, the FHLB announced that the Board of Directors approved the repurchase of excess capital stock from its members. On March 9, 2012, the FHLB repurchased \$213,000 of FHLB stock, representing 42,765 shares.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through June 30, 2012. The Company will continue to monitor its investment in FHLB stock.

Banker’s Bank Northeast stock is carried at cost and is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of June 30, 2012 and December 31, 2011, the Company’s investment in Banker’s Bank totaled \$183,000.

## 8. Loans and Allowance for Loan Losses

The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the respective portfolio.

	June 30, 2012		December 31, 2011	
	Amount	Percent of Total (Dollars In Thousands)	Amount	Percent of Total
Real estate loans:				
Residential	\$ 119,009	26.0 %	\$ 123,294	27.6 %
Home equity	30,735	6.7 %	29,790	6.7 %
Commercial	176,334	38.5 %	174,761	39.0 %
Total	326,078	71.2 %	327,845	73.3 %
Construction-residential	5,328	1.2 %	5,597	1.3 %
Construction-commercial	40,956	8.9 %	31,706	7.0 %
Total construction	46,284	10.1 %	37,303	8.3 %
Total real estate loans	372,362	81.3 %	365,148	81.6 %
Consumer loans	2,621	0.6 %	2,566	0.6 %
Commercial loans	82,684	18.1 %	79,412	17.8 %
Total loans	457,667	100.0 %	447,126	100.0 %
Deferred loan origination costs, net	899		921	
Allowance for loan losses	(4,482 )		(4,576 )	
Loans, net	\$454,084		\$443,471	