CHICOPEE BANCORP, INC.
Form 10-Q
May 15, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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 March 31, 2007

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	**20-4840562**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
70 Center Street, Chicopee, Massachusetts	**01013**
(Address of principal executive offices)	**(Zip Code)**

(413) 594-6692

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since 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 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 ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

Yes ¨ No x

As of May 10, 2007, there were 7,439,368 shares of the Registrant s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars In Thousands)

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	$ 9,850	$ 8,816
Short-term investments	3,013	1,132
Federal funds sold	18,898	1,580
Total cash and cash equivalents	31,761	11,528
Securities available-for-sale, at fair value	7,517	7,861
Securities held-to-maturity, at cost (fair value $35,986 and $37,099 at March 31, 2007 and December 31, 2006, respectively)	36,219	37,411
Federal Home Loan Bank stock, at cost	1,517	1,574
Loans, net of allowance for loan losses ($2,995 at March 31, 2007 and $2,908 at December 31, 2006)	364,834	368,968
Cash surrender value of life insurance	11,296	11,200
Premises and equipment, net	6,834	7,003
Accrued interest and dividend receivable	1,750	1,901
Deferred income tax asset	1,654	1,538
Other assets	910	1,061
Total assets	$ 464,292	$ 450,045
Liabilities and Stockholders Equity		
Deposits		
Non-interest-bearing	$ 29,120	$ 29,088
Interest-bearing	297,189	282,483
Total deposits	326,309	311,571
Securities sold under agreements to repurchase	11,708	12,712
Advances from Federal Home Loan Bank	14,760	15,256
Mortgagors escrow accounts	1,373	997
Accrued expenses and other liabilities	1,242	1,063
Total liabilities	355,392	341,599
Stockholders equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued and outstanding at March 31, 2007 and at December 31, 2006)	72,479	72,479
Additional paid-in-capital	184	144
Unearned compensation	(5,580)	(5,654)
Retained earnings	41,372	40,817
Accumulated other comprehensive income	445	660

Total stockholders equity	108,900	108,446
Total liabilities and stockholders equity	$ 464,292	$ 450,045

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except for Per Share Amounts)

(Unaudited)

	Three Months Ended March 31, 2007	2006
Interest and dividend income:		
Loans, including fees	$ 5,727	$ 4,696
Interest and dividends on securities	460	360
Other interest-earning assets	188	92
Total interest and dividend income	6,375	5,148
Interest expense:		
Deposits	2,628	1,662
Securities sold under agreements to repurchase	72	62
Other borrowed funds	147	357
Total interest expense	2,847	2,081
Net interest income	3,528	3,067
Provision for loan losses	101	150
Net interest income, after provision for loan losses	3,427	2,917
Non-interest income:		
Service charges, fees and commissions	429	389
Loan sales and servicing, net of amortization	(2)	73
Net gain on sales of securities available-for-sale	296	8
Total non-interest income	723	470
Non-interest expenses:		
Salaries and employee benefits	1,819	1,600
Occupancy expenses	291	280
Furniture and equipment	229	218
Data processing	183	180
Stationery, supplies and postage	93	76
Other non-interest expense	675	542
Total non-interest expenses	3,290	2,896
Income before income taxes	860	491
Income tax expense	305	152
Net income	$ 555	$ 339
Earnings per share:		

Basic	$ 0.08	NA
Diluted	$ 0.08	NA
Adjusted weighted average shares outstanding:		
Basic	6,881,194	NA
Diluted	6,881,194	NA

NA- Not Applicable

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Three Months Ended March 31, 2007 and 2006

(Dollars In Thousands)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2006	$ 72,479	$ 144	$ (5,654)	$ 40,817	$ 660	$ 108,446
Comprehensive income:						
Net income				555		555
Change in net unrealized gain on securities available-for-sale					(215)	(215)
Total comprehensive income						340
Change in unearned compensation		40	74			114
Balance at March 31, 2007	$ 72,479	$ 184	$ (5,580)	$ 41,372	$ 445	$ 108,900
Balance at December 31, 2005	$	$	$	$ 43,351	$ 90	$ 43,441
Comprehensive income:						
Net income				339		339
Change in net unrealized gain on securities available-for-sale					100	100
Total comprehensive income						439
Balance at March 31, 2006	$	$	$	$ 43,690	$ 190	$ 43,880

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 555	$ 339
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	157	179
Net amortization of investments		15
Provision for loan losses	101	150
Increase in cash surrender value of life insurance	(96)	(104)
Realized gains on investment securities, net	(296)	(8)
Realized losses on disposal of property and equipment	4	
Net gains on sales of loans and other real estate owned		(6)
Deferred income taxes		325
(Increase) decrease in other assets	151	(269)
Decrease in accrued interest receivable	151	14
Increase (decrease) in other liabilities	180	(780)
Change in unearned compensation	114	
Net cash provided (used) by operating activities	1,021	(145)
Cash flows from investing activities:		
Additions to premises and equipment	(17)	(265)
Loan originations and principal collections, net	4,032	(2,025)
Proceeds from sales of securities available-for-sale	965	1,010
Purchases of securities available-for-sale	(598)	(779)
Purchases of securities held-to-maturity	(25,817)	(19,041)
Maturities of securities held-to-maturity	27,034	19,277
Net cash provided (used) by investing activities	5,599	(1,823)
Cash flows from financing activities:		
Net increase in deposits	14,737	2,906
Net decrease in securities sold under agreements to repurchase	(1,004)	(8,102)
Payments on long-term FHLB advances	(496)	(686)
Net increase in other short-term borrowings		4,484
Net increase in escrow funds held	376	471
Net cash provided (used) by financing activities	13,613	(927)
Net increase (decrease) in cash and cash equivalents	20,233	(2,895)
Cash and cash equivalents at beginning of period	11,528	17,586
Cash and cash equivalents at end of period	$ 31,761	$ 14,691
Supplemental cash flow information:		
Interest paid on deposits	$ 2,628	$ 1,662

Interest paid on borrowings	219	419
Income taxes paid	15	41

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Three Months Ended March 31, 2007

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 by the Bank to become the holding company for the Bank upon completion of the Bank 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 all of its wholly-owned subsidiaries. The Consolidated Financial Statements of the Company as of March 31, 2007 and for the periods ended March 31, 2007 and 2006 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 footnotes thereto for the year ended December 31, 2006 included in the Company s Form 10-K.

The results for the three month interim periods covered hereby 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 weighted-average number of common shares outstanding during the period. The net outstanding common shares equals the gross number of common shares issued less unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan (ESOP). Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares to be issued would include any shares in a stock-based compensation plan. As of March 31, 2007, the Company does not have a stock-based compensation plan.

Earnings per share is computed as follows:

	Three Months Ended March 31, 2007	2006
Net income (in thousands)	$ 555	$ 339
Weighted average number of common shares outstanding	7,439,368	NA
Less: average number of unallocated ESOP shares	(558,174)	NA
Adjusted weighted average number of common shares outstanding	6,881,194	NA
Plus: potential shares that may be issued by the Company		NA
Weighted average number of diluted shares outstanding	6,881,194	NA
Net income per share:		
Basic	$ 0.08	NA
Diluted	$ 0.08	NA

NA- Not applicable

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3. Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. Effective January 1, 2007, the Company adopted FIN 48. The implementation of FIN 48 did not have a material impact on the Company s financial statements.

The Company s income tax returns for the years ended December 31, 2004, 2005 and 2006 are open to audit under the statute of limitations by the Internal Revenue Service. The Company s policy is to record interest and penalties related to uncertain tax positions as part of its income tax expense. The Company has no penalties and interest recorded for the three month period ended March 31, 2007.

In March 2006, FASB issued Statement of Financial Accounting Standards (SFAS) No. 156, Accounting for Servicing of Financial Assets-an Amendment to FASB Statement No. 140 . SFAS No. 156 requires mortgage servicing rights associated with loans originated and sold, where servicing is retained, to be initially capitalized at fair value and subsequently accounted for using either the fair value method or the amortization method . The Company is using the amortization method for subsequent reporting. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is based upon discounted cash flows using market-based assumptions. Projected prepayments on the portfolio are estimated using the Public Securities Association Standard Prepayment Model. All assumptions are adjusted periodically to reflect current circumstances. SFAS No. 156 was effective January 1, 2007. Implementation of SFAS No. 156 did not have a material effect on the financial statements of the Company.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 contains provisions to apply the fair value option to existing eligible financial instruments at the date of adoption. This statement is effective as of the beginning of an entity s first fiscal year after November 15, 2007, with provisions for early adoption. The Company is in the process of analyzing the impact of SFAS No. 159.

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4. Comprehensive Income or Loss

Accounting principles generally require recognized revenue, expenses, gains, and losses to be included in net income or loss. Certain changes in assets and liabilities, such as the after-tax effect of unrealized gains and losses on securities available-for-sale, are not reflected in the statement of income, but the cumulative effect of such items from period-to-period is reflected as a separate component of the equity section of the statement of financial condition (accumulated other comprehensive income). Other comprehensive income or loss, along with net income or loss, comprises the Company s total comprehensive income or loss.

Comprehensive income is comprised of the following:

	Three Months Ended March 31,	
	2007	2006
	(Dollars In Thousands)	
Net income	$ 555	$ 339
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) on available-for-sale securities arising during the period	(35)	162
Reclassification adjustment for gain on sale of available-for-sale securities included in net income	(296)	(8)
Tax effect	116	(54)
Other comprehensive income (loss), net of tax	(215)	100
Total comprehensive income	$ 340	$ 439

6. Defined Benefit Pension Plan

The Company sponsors a noncontributory defined benefit plan through its membership in the Savings Bank Employees Retirement Association (SBERA). Employees are eligible to join the Pension Plan after attaining age 21 and having been credited with one year of service. Eligible employees become vested in the Pension Plan after three years of service. The Pension Plan provides monthly benefits upon retirement based on compensation during the highest paid three consecutive years of employment during the last ten years of credited service. The components of the net periodic benefit cost are:

	Three Months Ended March 31,	
	2007	2006
	(Dollars In Thousands)	
Service cost	$ 89	$ 73
Interest cost	90	75
Amortization of transition obligation		1
Expected return on assets	(91)	(69)
Recognized net actuarial loss	8	6
Net periodic benefit cost	$ 96	$ 86
Weighted-average discount rate assumption used to determine benefit obligation	5.75%	5.75%
Weighted-average discount rate assumption used to determine net benefit cost	5.75%	5.75%

As of November 14, 2006 the Board of Directors agreed to terminate the Pension Plan effective January 31, 2007. As of March 31, 2007, the Bank had an accrued liability of $781,000 which will be equitably distributed to all eligible employees who are active when the plan terminates.

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

The following analysis discusses changes in the financial condition and results of operations of the Company at and for the three months ended March 31, 2007 and 2006, and should be read in conjunction with the Company s Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part I, Item 1 of this document.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. The Company s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to: changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company s market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

The Company does not undertake and specifically disclaims any obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

General

Chicopee Savings Bank is a community-oriented financial institution dedicated to serving the financial services needs of consumers and businesses within its market area. We attract deposits from the general public and use such funds to originate primarily one- to four-family residential real estate loans, commercial real estate loans and commercial loans. To a lesser extent, we originate multi-family loans, construction loans and consumer loans. At March 31, 2007, we operated out of our main office and six offices in Chicopee, West Springfield and Ludlow, Massachusetts.

Comparison of Financial Condition at March 31, 2007 and December 31, 2006

The Company s assets expanded $14.3 million, or 3.2%, to $464.3 million at March 31, 2007 as compared to $450.0 million at December 31, 2006, primarily as a result of an increase in federal funds sold of $17.3 million. Total net loans decreased $4.2 million, or 1.1%, to $364.8 million at March 31, 2007 primarily as a result of one large commercial loan pay off.

The balance sheet expansion was funded primarily by an increase in deposits of $14.7 million. Core deposits, which exclude certificates of deposit, increased $10.6 million, or 8.8%, to $130.6 million at March 31, 2007 from $120.0 million at December 31, 2006 largely as a result of aggressive deposit pricing. Borrowings decreased $496,000, or 3.3%, to $14.8 million at March 31, 2007 due to principal payments. Certificates of deposit balances grew $4.1 million, or 2.1%, to $195.7 million at March 31, 2007 principally from special promotions.

Total stockholders equity increased $454,000, or 0.42%, to $108.9 million at March 31, 2007 over December 31, 2006, resulting mainly from net income from the period.

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Lending Activities

At March 31, 2007, the Company s net loan portfolio was $364.8 million, or 78.6% of total assets. The following table sets forth the composition of the Company s loan portfolio in dollar amounts and as a percentage of the respective portfolio at the dates indicated.

	March 31, 3007		December 31, 2006	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)			
Real estate loans:				
One- to four-family	$ 143,626	39.1%	$ 143,964	38.8%
Multi-family	11,296	3.1%	11,447	3.1%
Commercial	98,754	26.9%	102,819	27.7%
Construction	44,620	12.2%	41,713	11.2%
Total real estate loans	298,296	81.3%	299,943	80.8%
Consumer loans:				
Home equity	7,893	2.2%	7,766	2.1%
Second mortgages	14,117	3.8%	13,386	3.6%
Other	3,531	1.0%	3,555	1.0%
Total consumer loans	25,541	7.0%	24,707	6.7%
Commercial loans	43,120	11.8%	46,348	12.5%
Total loans	366,957	100.0%	370,998	100.0%
Less:				
Undisbursed portion of loans in process	25		21	
Net deferred loan origination costs	847		857	
Allowance for loan losses	(2,995)		(2,908)	
Loans, net	$ 364,834		$ 368,968	

The Company s net loan portfolio decreased $4.1 million, or 1.1%, during the first three months of 2007 primarily due to one large loan pay off within the commercial real estate portfolio.

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Non-performing Assets

The following table sets forth information regarding nonaccrual loans and real estate owned at the dates indicated.

	March 31, 2007	December 31, 2006
	(Dollars In Thousands)	
Nonaccrual loans:		
Real estate mortgage	$ 851	$ 1,460
Construction	197	
Commercial	136	243
Consumer	4	8
Total	1,188	1,711
Real estate owned, net (1)		
Total nonperforming assets	$ 1,188	$ 1,711
Total nonperforming loans as a percentage of total loans (2) (3)	0.32%	0.46%
Total nonperforming assets as a percentage of total assets (3)	0.26%	0.38%

(1) REO balances are shown net of related loss allowances.

(2) Total loans includes loans, less unadvanced loan funds, plus net deferred loan costs.

(3) Nonperforming assets consist of nonperforming loans and REO. Nonperforming loans consist of all loans 90 days or more past due and other loans that have been identified by the Company as presenting uncertainty with respect to the collectibility of interest or principal.

Allowance for Loan Losses

Management prepares a loan loss analysis on a quarterly basis. The allowance for loan losses is maintained through the provision for loan losses, which is charged to operations. The allowance for loan losses is maintained at an amount that management considers appropriate to cover estimated losses in the loan portfolio based on management s on-going evaluation of the risks inherent in the loan portfolio, consideration of local and regional trends in delinquency and impaired loans, the amount of charge-offs and recoveries, the volume of loans, changes in risk selection, credit concentrations, existing loan-to-value ratios, national and regional economies and the real estate market in the Company s primary lending area. Management believes that the current allowance for loan losses is appropriate to cover losses inherent in the current loan portfolio. The Company s loan loss allowance determinations also incorporate factors and analyses which consider the principal loss associated with the loan. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance for loan losses is based on management s estimate of the amount required to reflect the potential inherent losses in the loan portfolio, based on circumstances and conditions known or anticipated at each reporting date. There are inherent uncertainties with respect to the collectibility of the Bank s loans and it is reasonably possible that actual losses experienced in the near term may differ from the amounts reflected in this report.

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The allowance for loan losses is determined using a consistent, systematic methodology which analyzes the size and risk of the loan portfolio. In addition to evaluating the collectibility of specific loans when determining the allowance for loan losses, management also takes into consideration other factors such as changes in the mix and the volume of the loan portfolio, historic loss experience, amount of the delinquencies and loans adversely classified, and economic trends. The adequacy of the allowance for loan losses is assessed by the allocation process whereby specific loss allocations are made against certain adversely classified loans, and general loss allocations are made against segments of the loan portfolio which have similar attributes. The Bank s historical loss experience, industry trends, and the impact of the local and regional economy on the Bank s borrowers, were considered by management in determining the allowance for loan losses.

The following table sets forth activity in the Company s allowance for loan losses for the periods set forth.

	At or for the Three Months Ended March 31,	
	2007	2006
	(Dollars In Thousands)	
Allowance for loan losses, beginning of period	$ 2,908	$ 2,605
Charged-off loans:		
Real Estate		
Commercial		
Consumer	14	3
Total charged-off loans	14	3
Recoveries on loans previously charged-off:		
Real estate		
Commercial		
Consumer		
Total recoveries		
Net loan charge-offs	14	3
Provision for loan losses	101	150
Allowance for loan losses, end of period	$ 2,995	$ 2,752
Net loan charge-offs to average loans, net	0.02%	
Allowance for loan losses to total loans (1)	0.82%	0.86%
Allowance for loan losses to nonperforming loans and troubled debt restructurings (2)	252.10%	349.68%
Recoveries to charge-offs		

(1) Total loans includes loans, less unadvanced loan funds, plus net deferred loan costs.

(2) Nonperforming loans consist of all loans 90 days or more past due and other loans which have been identified by the Company as presenting uncertainty with respect to the collectibility of interest or principal.

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Investment Activities

At March 31, 2007, the Company s investment securities portfolio amounted to $43.7 million, or 9.4% of assets. The following table sets forth at the dates indicated information regarding the amortized cost and market values of the Company s investment securities.

	March 31, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Securities available-for-sale:				
Marketable equity securities	$ 6,833	$ 7,517	$ 6,847	$ 7,861
Total equity securities	6,833	7,517	6,847	7,861