

CHICOPEE BANCORP, INC.
Form 10-Q
May 09, 2013

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 March 31, 2013

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 (I.R.S. Employer Identification No.)
organization)

70 Center Street, Chicopee, Massachusetts 01013
(Address of principal executive offices) (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
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

As of May 3, 2013, there were 5,428,585 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)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	\$9,138	\$11,073
Federal funds sold	2,197	3,372
Interest-bearing deposits with the Federal Reserve Bank of Boston	20,833	25,163
Total cash and cash equivalents	32,168	39,608
Available-for-sale securities, at fair value	634	621
Held-to-maturity securities, at cost (fair value \$66,647 and \$67,108 at March 31, 2013 and December 31, 2012, respectively)	59,896	59,568
Federal Home Loan Bank stock, at cost	3,914	4,277
Loans, net of allowance for loan losses (\$4,325 at March 31, 2013 and \$4,364 at December 31, 2012)	456,644	465,211
Loans held for sale	2,224	—
Other real estate owned	485	572
Mortgage servicing rights	425	368
Bank owned life insurance	13,899	13,807
Premises and equipment, net	9,357	9,459
Accrued interest and dividends receivable	1,695	1,567
Deferred income tax asset	3,248	3,252
FDIC prepaid insurance	476	467
Other assets	1,207	1,205
Total assets	\$586,272	\$599,982
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	\$72,371	\$75,407
NOW accounts	39,431	36,711
Savings accounts	49,833	48,882
Money market deposit accounts	113,070	127,730
Certificates of deposit	176,377	177,447
Total deposits	451,082	466,177
Securities sold under agreements to repurchase	12,721	9,763
Advances from Federal Home Loan Bank	31,013	33,332
Accrued expenses and other liabilities	803	741
Total liabilities	495,619	510,013
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at March 31, 2013 and December 31, 2012)	72,479	72,479

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Treasury stock, at cost (2,010,783 shares at March 31, 2013 and December 31, 2012)	(26,567) (26,567)
Additional paid-in-capital	3,119	3,044	
Unearned compensation (restricted stock awards)	(17	) (18)
Unearned compensation (Employee Stock Ownership Plan)	(3,794	) (3,868)
Retained earnings	45,399	44,873	
Accumulated other comprehensive income	34	26	
Total stockholders' equity	90,653	89,969	
Total liabilities and stockholders' equity	\$586,272	\$599,982	

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 March	
	31,	
	2013	2012
Interest and dividend income:		
Loans, including fees	\$5,456	\$5,685
Interest and dividends on securities	424	414
Other interest-earning assets	14	19
Total interest and dividend income	5,894	6,118
Interest expense:		
Deposits	958	1,146
Securities sold under agreements to repurchase	3	5
Other borrowed funds	189	365
Total interest expense	1,150	1,516
Net interest income	4,744	4,602
(Reduction of) provision for loan losses	(70	) 7
Net interest income after (reduction of) provision for loan losses	4,814	4,595
Non-interest income:		
Service charges, fees and commissions	502	540
Loan sales and servicing, net	264	153
Net loss on sale of other real estate owned	(40	) (108
Income from bank owned life insurance	92	96
Other non-interest income	24	—
Total non-interest income	842	681
Non-interest expenses:		
Salaries and employee benefits	2,533	2,771
Occupancy expenses	425	395
Furniture and equipment	204	209
FDIC insurance assessment	68	94
Data processing	312	262
Professional fees	217	165
Advertising	147	149
Stationery, supplies and postage	76	108
Other non-interest expense	652	677
Total non-interest expenses	4,634	4,830
Income before income taxes	1,022	446
Income tax expense	225	49
Net income	\$797	\$397
Earnings per share:		
Basic	\$0.16	\$0.08

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Diluted	\$0.16	\$0.08
Adjusted weighted average shares outstanding:		
Basic	5,040,230	5,070,119
Diluted	5,040,676	5,119,446

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2013	2012
Net income	\$797	\$397
Other comprehensive income, net of tax		
Unrealized holding gains arising during period on investment securities available-for-sale	12	12
Tax effect	(4	) (4
Other comprehensive income, net of tax	8	8
Comprehensive income	\$805	\$405

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2013 and 2012
(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	Total
Balance at December 31, 2012	\$72,479	\$(26,567)	\$3,044	\$ (18)	\$ (3,868)	\$44,873	\$ 26	\$89,969
Comprehensive income:								
Net income	—	—	—	—	—	797	—	797
Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of \$4)	—	—	—	—	—	—	8	8
Total comprehensive income								805
Stock option expense (net of income tax benefit of \$1)	—	—	28	—	—	—	—	28
Change in unearned compensation:								
Restricted stock award expense	—	—	—	1	—	—	—	1
Common stock held by ESOP committed to be released	—	—	47	—	74	—	—	121
Cash dividends declared (\$0.05 per share)	—	—	—	—	—	(271)	—	(271)
Balance at March 31, 2013	\$72,479	\$(26,567)	\$3,119	\$ (17)	\$ (3,794)	\$45,399	\$ 34	\$90,653
Balance at December 31, 2011	\$72,479	\$(22,190)	\$2,800	\$ (546)	\$ (4,166)	\$42,408	\$ (3)	\$90,782
Comprehensive income:								
Net income	—	—	—	—	—	397	—	397

Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of \$4)	—	—	—	—	—	—	8	8
Total comprehensive income								405
Stock option expense (net of income tax benefit of \$22)	—	—	108	—	—	—	—	108
Treasury stock purchased (128,589 shares)	—	(1,849)	—	—	—	—	—	(1,849)
Change in unearned compensation:								
Restricted stock award expense	—	—	—	192	—	—	—	192
Common stock held by ESOP committed to be released	—	—	31	—	74	—	—	105
Balance at March 31, 2012	\$72,479	\$(24,039)	\$2,939	\$ (354)	\$ (4,092)	\$42,805	\$ 5	\$89,743

See accompanying notes to unaudited consolidated
financial statements.

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

	Three Months Ended March 31,	
	2013	2012
	(In Thousands)	
Cash flows from operating activities:		
Net income	\$ 797	\$ 397
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	230	235
(Reductions of) provision for loan losses	(70	) 7
Increase in cash surrender value of life insurance	(92	) (96
Realized gains on sales of mortgage loans	(90	) (54
(Increase) decrease in other assets	(17	) 46
Increase in accrued interest and dividends receivable	(128	) (36
(Increase) decrease in FDIC prepaid insurance	(9	) 94
Net change in loans originated for resale	(2,224	) 31
Net loss on sales of other real estate owned	40	108
Decrease (increase) in other liabilities	62	(97
Change in unearned compensation	122	297
Stock option expense	28	108
Net cash (used) provided by operating activities	(1,351	) 1,040
Cash flows from investing activities:		
Additions to premises and equipment	(82	) (163
Loan originations and principal collections, net	8,637	(6,182
Proceeds from sales of other real estate owned	48	—
Purchases of held-to-maturity securities	(9,444	) (3,004
Maturities of held-to-maturity securities	8,711	14,009
Proceeds from principal paydowns of held-to-maturity securities	406	496
Proceeds from sale of FHLB stock	362	213
Net cash provided by investing activities	8,638	5,369
Cash flows from financing activities:		
Net decrease in deposits	(15,095	) (4,760
Net increase (decrease) in securities sold under agreements to repurchase	2,958	(2,457
Payments on long-term FHLB advances	(2,319	) (2,891
Stock purchased for treasury	—	(1,849
Cash dividends paid on common stock	(271) —
Net cash used by financing activities	(14,727	) (11,957
Net decrease in cash and cash equivalents	(7,440	) (5,548
Cash and cash equivalents at beginning of period	39,608	61,122
Cash and cash equivalents at end of period	\$ 32,168	\$ 55,574
Supplemental cash flow information:		

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Interest paid on deposits	\$958	\$1,146
Interest paid on borrowings	242	398
Income taxes paid	7	—
Transfers from loans to other real estate owned	—	97

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
March 31, 2013 and 2012

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 March 31, 2013 and for the periods ended March 31, 2013 and 2012 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, 2012 included in the Company's Annual Report on Form 10-K.

The results for the three month interim period ended March 31, 2013 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 March 31,	
	2013	2012
Net income (in thousands)	\$797	\$397
Weighted average number of common shares issued	7,439,368	7,439,368
Less: average number of treasury shares	(2,010,783	) (1,897,395)
Less: average number of unallocated ESOP shares	(386,848	) (416,605)
Less: average number of dilutive restricted stock awards	(1,507	) (55,249)
Adjusted weighted average number of common shares outstanding	5,040,230	5,070,119
Plus: dilutive outstanding restricted stock awards	446	49,327
Plus: dilutive outstanding stock options	—	—
Weighted average number of diluted shares outstanding	5,040,676	5,119,446

Earnings per share:

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Basic- common stock	\$0.16	\$0.08
Basic- unvested share-based payment awards	\$0.16	\$0.08
Diluted- common stock	\$0.16	\$0.08
Diluted- unvested share-based payment awards	\$0.16	\$0.08

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There were 695,198 and 619,198 stock options that were not included in the calculation of diluted earnings per share for the three months ended March 31, 2013 and 2012, 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, 2012, and the three months ended March 31, 2013:

	Three Months Ended March 31, 2013	Year Ended December 31, 2012		
Expected dividend yield	1.39	% 0.86		%
Weighted average expected term	6.5 years	6.5 years		
Weighted average expected volatility	24.06	% 23.27		%
Weighted average risk-free interest rate	1.25	% 1.40		%

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 March 31, 2013, and changes during the three months ended March 31, 2013, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2012	595,198	\$14.24	5.15	\$983
Granted	100,000	16.55	9.82	—
Exercised	—	—	—	—
Forfeited or expired	—	—	—	—
Outstanding at March 31, 2013	695,198	\$14.57	5.62	\$1,619
Exercisable at March 31, 2013	534,598	\$14.26	4.50	\$1,411
Exercisable at March 31, 2012	429,357	\$14.26	5.38	\$102

The Company granted 100,000 stock options in the three months ended March 31, 2013 with a fair value of \$3.59. The weighted-average grant-date fair value of options granted during 2012 was \$3.32. The weighted average grant-date fair value of the options outstanding and exercisable at March 31, 2013 was \$3.81 and \$3.90, respectively. For the three months ended March 31, 2013 and 2012, share based compensation expense applicable to options granted under the Plan was \$28,000 and \$108,000 and the related tax benefit was \$1,000 and \$22,000, respectively. As of March 31, 2013, unrecognized stock-based compensation expense related to non-vested options amounted to \$540,000. This amount is expected to be recognized over a period of 4.26 years.

Stock Awards