

CHICOPEE BANCORP, INC.  
Form 10-Q  
August 03, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2009

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)

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**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)

**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  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. (Check one)

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 July 30, 2009, there were 6,396,350 shares of the Registrant's Common Stock outstanding.

**Table of Contents**

**CHICOPEE BANCORP, INC.**

**FORM 10-Q**

**INDEX**

|   | <b>Page</b> |
|---|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   |             |
| Item 1. <u>Financial Statements (unaudited)</u>   |             |
| <u>Consolidated Statements of Financial Condition at June 30, 2009 and December 31, 2008.</u>                     | 1           |
| <u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2009 and 2008</u>            | 2           |
| <u>Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended June 30, 2009 and 2008</u> | 3           |
| <u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008</u>                      | 4           |
| <u>Notes to Unaudited Consolidated Financial Statements</u>   | 5           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>              | 19          |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | 38          |
| Item 4. <u>Controls and Procedures</u>  | 39          |
| <b><u>PART II: OTHER INFORMATION</u></b>  |             |
| Item 1. <u>Legal Proceedings</u>  | 40          |
| Item 1A. <u>Risk Factors</u>  | 40          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 40          |
| Item 3. <u>Defaults Upon Senior Securities</u>  | 41          |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>  | 41          |
| Item 5. <u>Other Information</u>  | 42          |
| Item 6. <u>Exhibits</u>   | 42          |
| <u>SIGNATURES</u>   | 43          |

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(Dollars In Thousands)**

|  | <b>June 30,<br/>2009<br/>(Unaudited)</b> | <b>December 31,<br/>2008</b> |
|--|--|------------------------------|
| <b>Assets</b>  |  |                              |
| Cash and due from banks  | \$ 8,958                                 | \$ 21,097                    |
| Short-term investments   | 907                                      | 1,003                        |
| Federal funds sold   | 38,459                                   | 1,000                        |
| Total cash and cash equivalents  | 48,324                                   | 23,100                       |
| Securities available-for-sale, at fair value   | 5,352                                    | 5,268                        |
| Securities held-to-maturity, at cost (fair value \$37,351 and \$49,673 at June 30, 2009 and December 31, 2008, respectively) | 37,277                                   | 49,662                       |
| Federal Home Loan Bank stock, at cost  | 4,306                                    | 4,306                        |
| Loans, net of allowance for loan losses (\$3,475 at June 30, 2009 and \$3,333 at December 31, 2008)                          | 414,116                                  | 416,076                      |
| Loans held for sale  | 501                                      | 185                          |
| Other real estate owned  | 206                                      | 269                          |
| Bank owned life insurance  | 12,377                                   | 12,144                       |
| Premises and equipment, net  | 10,765                                   | 10,677                       |
| Accrued interest and dividends receivable  | 1,458                                    | 1,577                        |
| Deferred income tax asset  | 2,428                                    | 2,434                        |
| Other assets   | 2,355                                    | 2,001                        |
| Total assets   | \$ 539,465                               | \$ 527,699                   |
| <b>Liabilities and Stockholders Equity</b>   |  |                              |
| Deposits   |  |                              |
| Non-interest-bearing   | \$ 35,999                                | \$ 30,811                    |
| Interest-bearing   | 338,002                                  | 303,956                      |
| Total deposits   | 374,001                                  | 334,767                      |
| Securities sold under agreements to repurchase   | 15,348                                   | 21,956                       |
| Federal Home Loan Bank of Boston advances  | 55,684                                   | 76,567                       |
| Accrued expenses and other liabilities   | 242                                      | 392                          |
| Total liabilities  | 445,275                                  | 433,682                      |
| Stockholders equity  |  |                              |
| Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at June 30, 2009 and December 31, 2008)    | 72,479                                   | 72,479                       |

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|   |            |            |
|---|------------|------------|
| Treasury stock, at cost (997,015 shares at June 30, 2009 and 942,615 shares at December 31, 2008) | (13,115)   | (12,483)   |
| Additional paid-in-capital  | 1,456      | 1,168      |
| Unearned compensation (restricted stock awards)   | (2,692)    | (3,107)    |
| Unearned compensation (Employee Stock Ownership Plan)   | (4,910)    | (5,059)    |
| Retained earnings   | 42,380     | 42,439     |
| Accumulated other comprehensive loss  | (1,408)    | (1,420)    |
| Total stockholders' equity  | 94,190     | 94,017     |
| Total liabilities and stockholders' equity  | \$ 539,465 | \$ 527,699 |

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In Thousands, Except for Number of Shares and Per Share Amounts)

(Unaudited)

|   | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |               |
|---|--------------------------------|--------------|------------------------------|---------------|
|   | 2009                           | 2008         | 2009                         | 2008          |
| Interest and dividend income:                               |                                |              |                              |               |
| Loans, including fees                                       | \$ 5,922                       | \$ 5,971     | \$ 11,820                    | \$ 11,906     |
| Interest and dividends on securities                        | 203                            | 347          | 380                          | 663           |
| Other interest-earning assets                               | 7                              | 35           | 7                            | 172           |
| <b>Total interest and dividend income</b>                   | <b>6,132</b>                   | <b>6,353</b> | <b>12,207</b>                | <b>12,741</b> |
| Interest expense:   |                                |              |                              |               |
| Deposits  | 1,822                          | 2,251        | 3,702                        | 4,897         |
| Securities sold under agreements to repurchase              | 55                             | 90           | 114                          | 180           |
| Other borrowed funds  | 401                            | 311          | 806                          | 470           |
| <b>Total interest expense</b>                               | <b>2,278</b>                   | <b>2,652</b> | <b>4,622</b>                 | <b>5,547</b>  |
| <b>Net interest income</b>                                  | <b>3,854</b>                   | <b>3,701</b> | <b>7,585</b>                 | <b>7,194</b>  |
| Provision for loan losses                                   | 71                             | 262          | 165                          | 272           |
| <b>Net interest income, after provision for loan losses</b> | <b>3,783</b>                   | <b>3,439</b> | <b>7,420</b>                 | <b>6,922</b>  |
| Non-interest income:  |                                |              |                              |               |
| Service charges, fees and commissions                       | 352                            | 404          | 686                          | 764           |
| Loan sales and servicing, net of amortization               | 237                            | (1)          | 436                          | (7)           |
| Net gain (loss) on sales of securities available-for-sale   | (9)                            | 100          | 27                           | 115           |
| Income from bank owned life insurance                       | 116                            | 117          | 232                          | 234           |
| <b>Total non-interest income</b>                            | <b>696</b>                     | <b>620</b>   | <b>1,381</b>                 | <b>1,106</b>  |
| Non-interest expenses:                                      |                                |              |                              |               |
| Salaries and employee benefits                              | 2,586                          | 2,361        | 4,938                        | 4,582         |
| Occupancy expenses  | 391                            | 278          | 858                          | 567           |
| Furniture and equipment                                     | 313                            | 231          | 591                          | 464           |
| FDIC insurance assessment                                   | 285                            | 10           | 308                          | 19            |
| Data processing   | 255                            | 208          | 534                          | 413           |
| Professional fees   | 154                            | 176          | 289                          | 310           |
| Advertising   | 117                            | 117          | 227                          | 227           |
| Other than temporary impairment charge                      | 106                            |              | 106                          |               |
| Stationery, supplies and postage                            | 98                             | 84           | 205                          | 169           |
| Other non-interest expense                                  | 498                            | 418          | 954                          | 829           |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Total non-interest expense                    | 4,803     | 3,883     | 9,010     | 7,580     |
| Income (loss) before income taxes             | (324)     | 176       | (209)     | 448       |
| Income tax expense (benefit)                  | (150)     | 48        | (150)     | 131       |
| Net income (loss)                             | \$ (174)  | \$ 128    | \$ (59)   | \$ 317    |
| Earnings (loss) per share: (1)                |           |           |           |           |
| Basic   | \$ (0.03) | \$ 0.02   | \$ (0.01) | \$ 0.05   |
| Diluted                                       | \$ (0.03) | \$ 0.02   | \$ (0.01) | \$ 0.05   |
| Adjusted weighted average shares outstanding: |           |           |           |           |
| Basic   | 5,715,068 | 6,029,026 | 5,728,305 | 6,173,161 |
| Diluted                                       | 5,715,068 | 6,070,240 | 5,728,305 | 6,208,951 |

(1) Common stock equivalents are excluded from the computation of diluted net loss per share for the three and six months ended June 30, 2009, since the inclusion of such equivalents would be anti-dilutive.  
See accompanying notes to unaudited consolidated financial statements.

Table of Contents

## CHICOPEE BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Six Months Ended June 30, 2009 and 2008

(Dollars In Thousands)

(Unaudited)

|  | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Unearned<br>Compensation<br>(restricted<br>stock<br>awards) | Unearned<br>Compensation<br>(Employee<br>Stock<br>Ownership<br>Plan) | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total      |
|--|-----------------|-------------------|----------------------------------|---|--|----------------------|---|------------|
| Balance at December 31, 2008   | \$ 72,479       | \$ (12,483)       | \$ 1,168                         | \$ (3,107)  | \$ (5,059)   | \$ 42,439            | \$ (1,420)                                    | \$ 94,017  |
| Comprehensive loss:  |                 |                   |                                  |   |  |                      |   |            |
| Net loss   |                 |                   |                                  |   |  | (59)                 |   | (59)       |
| Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of \$7)   |                 |                   |                                  |   |  |                      | 12  | 12         |
| Total comprehensive loss   |                 |                   |                                  |   |  |                      |   | (47)       |
| Treasury stock purchased (54,400 shares)   |                 | (632)             |                                  |   |  |                      |   | (632)      |
| Change in unearned compensation:   |                 |                   |                                  |   |  |                      |   |            |
| Stock option expense   |                 |                   | 260                              |   |  |                      |   | 260        |
| Restricted stock award expense   |                 |                   |                                  | 415   |  |                      |   | 415        |
| Common stock held by ESOP committed to be released   |                 |                   | 28                               |   | 149  |                      |   | 177        |
| Balance at June 30, 2009   | \$ 72,479       | \$ (13,115)       | \$ 1,456                         | \$ (2,692)  | \$ (4,910)   | \$ 42,380            | \$ (1,408)                                    | \$ 94,190  |
| Balance at December 31, 2007   | \$ 72,479       | \$ (2,108)        | \$ 573                           | \$ (3,940)  | \$ (5,356)   | \$ 42,417            | \$ 234  | \$ 104,299 |
| Comprehensive loss:  |                 |                   |                                  |   |  |                      |   |            |
| Net income   |                 |                   |                                  |   |  | 317                  |   | 317        |
| Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of \$224) |                 |                   |                                  |   |  |                      | (418)   | (418)      |
| Total comprehensive loss   |                 |                   |                                  |   |  |                      |   | (101)      |
| Treasury stock purchased (496,968 shares)  |                 | (6,518)           |                                  |   |  |                      |   | (6,518)    |
| Change in unearned compensation:   |                 |                   |                                  |   |  |                      |   |            |
| Stock option expense   |                 |                   | 231                              |   |  |                      |   | 231        |
| Restricted stock award expense   |                 |                   |                                  | 413   |  |                      |   | 413        |
|  |                 |                   | 44                               |   | 148  |                      |   | 192        |



Common stock held by ESOP  
committed to be released

|                          |           |            |        |            |            |           |          |           |
|--------------------------|-----------|------------|--------|------------|------------|-----------|----------|-----------|
| Balance at June 30, 2008 | \$ 72,479 | \$ (8,626) | \$ 848 | \$ (3,527) | \$ (5,208) | \$ 42,734 | \$ (184) | \$ 98,516 |
|--------------------------|-----------|------------|--------|------------|------------|-----------|----------|-----------|

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents**

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

|   | Six Months Ended June 30, |                 |
|---|---------------------------|-----------------|
|   | 2009                      | 2008            |
|   | (In thousands)            |                 |
| <b>Cash flows from operating activities:</b>  |                           |                 |
| Net (loss) income   | \$ (59)                   | \$ 317          |
| <b>Adjustments to reconcile net (loss) income to net cash provided by operating activities:</b> |                           |                 |
| Depreciation and amortization   | 699                       | 446             |
| Provision for loan losses   | 165                       | 272             |
| Increase in cash surrender value of life insurance  | (233)                     | (234)           |
| Realized gain on investment securities, net   | (27)                      | (115)           |
| Realized gains on sales of mortgages  | 261                       | 6               |
| Realized losses on disposal of property and equipment   |                           | 1               |
| Decrease (increase) in other assets   | (354)                     | 215             |
| Decrease in accrued interest receivable   | 119                       | 245             |
| Net change in loans originated for resale   | (316)                     |                 |
| Decrease in OREO  | 63                        |                 |
| Decrease in other liabilities   | (150)                     | (852)           |
| Other than temporary impairment charge  | 106                       |                 |
| Change in unearned compensation   | 852                       | 836             |
| <b>Net cash provided by operating activities</b>  | <b>1,126</b>              | <b>1,137</b>    |
| <b>Cash flows from investing activities:</b>  |                           |                 |
| Additions to premises and equipment   | (628)                     | (1,337)         |
| Loan originations and principal collections, net  | 1,532                     | (28,786)        |
| Proceeds from sales of securities available-for-sale  | 358                       | 1,719           |
| Proceeds from securities held-to-maturity   | 26                        |                 |
| Purchases of securities available-for-sale  | (501)                     | (3,616)         |
| Purchases of securities held-to-maturity  | (58,400)                  | (176,204)       |
| Maturities of securities held-to-maturity   | 70,600                    | 159,714         |
| <b>Net cash provided (used) by investing activities</b>   | <b>12,987</b>             | <b>(48,510)</b> |
| <b>Cash flows from financing activities:</b>  |                           |                 |
| Net increase (decrease) in deposits   | 39,234                    | (3,118)         |
| Net increase (decrease) in securities sold under agreements to repurchase                       | (6,608)                   | 13,137          |
| Proceeds from long-term FHLB advances   | 11,000                    | 15,000          |
| Payments on long-term FHLB advances   | (1,883)                   | (1,359)         |
| Net increase (decrease) in other short-term borrowings  | (30,000)                  | 35,000          |
| Stock purchased for treasury  | (632)                     | (6,518)         |
| <b>Net cash provided by financing activities</b>  | <b>11,111</b>             | <b>52,142</b>   |
| <b>Net increase in cash and cash equivalents</b>  | <b>25,224</b>             | <b>4,769</b>    |
| Cash and cash equivalents at beginning of period  | 23,100                    | 23,521          |

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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 48,324 | \$ 28,290 |
|--|-----------|-----------|

Supplemental cash flow information:

|                             |          |          |
|-----------------------------|----------|----------|
| Interest paid on deposits   | \$ 3,702 | \$ 4,897 |
| Interest paid on borrowings | 789      | 650      |
| Income taxes paid           | 61       | 775      |

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents**

**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**At and for the Six Months Ended June 30, 2009 and 2008**

**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'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 both of its wholly-owned subsidiaries. The Consolidated Financial Statements of the Company as of June 30, 2009 and for the periods ended June 30, 2009 and 2008 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, 2008 included in the Company's Annual Report on Form 10-K.

The results for the three and six 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 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 treasury shares, unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan (ESOP) and nonvested 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.

**Table of Contents**

Earnings per share is computed as follows:

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2009                           | 2008      | 2009                         | 2008      |
| Net income (loss) (in thousands)                              | \$ (174)                       | \$ 128    | \$ (59)                      | \$ 317    |
| 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                       | (983,667)                      | (577,133) | (970,430)                    | (432,998) |
| Less: average number of unallocated ESOP shares               | (505,878)                      | (535,635) | (505,878)                    | (535,635) |
| Less: average number of nonvested restricted stock awards     | (234,755)                      | (297,574) | (234,755)                    | (297,574) |
| Adjusted weighted average number of common shares outstanding | 5,715,068                      | 6,029,026 | 5,728,305                    | 6,173,161 |
| Plus: dilutive nonvested restricted stock awards              |                                | 41,214    |                              | 35,790    |
| Weighted average number of diluted shares outstanding         | 5,715,068                      | 6,070,240 | 5,728,305                    | 6,208,951 |
| Earnings (loss) per share:                                    |                                |           |                              |           |
| Basic   | \$ (0.03)                      | \$ 0.02   | \$ (0.01)                    | \$ 0.05   |
| Diluted   | \$ (0.03)                      | \$ 0.02   | \$ (0.01)                    | \$ 0.05   |

There were 671,667 and 666,667 stock options that were not included in the diluted earnings per share for the three and six months ended June 30, 2009 and 2008, respectively, because their effect was anti-dilutive. In addition, there were 234,755 and 252,224 stock awards that were not included in the diluted earnings per share for the three months ended June 30, 2009 and 2008, respectively, because their effect was anti-dilutive. There were 234,755 and 257,648 stock awards that were not included in the diluted earnings per share for the six months ended June 30, 2009 and 2008, respectively, because their effect was anti-dilutive.

### 3. Equity Incentive Plan Stock Options

Under the Company's 2007 Equity Incentive Plan, 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 grant 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 six months ended June 30, 2009 and 2008:

|                         | Six Months Ended<br>June 30, |           |
|-------------------------|------------------------------|-----------|
|                         | 2009                         | 2008      |
| Expected dividend yield | 2.00%                        | 2.00%     |
| Expected term           | 6.5 years                    | 6.5 years |
| Expected volatility     | 24.52%                       | 23.00%    |
| Risk-free interest rate | 1.99%                        | 5.08%     |



**Table of Contents**

Expected volatility is based on the historical volatility of the Company's stock and other factors. The risk-free ratio 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, 2009, and changes during the six months then ended, is as follows:

|                                  | Number<br>of<br>Shares | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(000 s) |
|----------------------------------|------------------------|------------------------------------|---|--|
| Outstanding at December 31, 2008 | 671,667                | \$ 14.27                           | 8.43  |  |
| Granted                          |                        |                                    |   |  |
| Exercised                        |                        |                                    |   |  |
| Forfeited or expired             |                        |                                    |   |  |
| Outstanding at June 30, 2009     | 671,667                | \$ 14.27                           | 7.94  | \$ 9,582                                   |
| Exercisable at June 30, 2009     | 133,331                | \$ 14.29                           | 7.93  | \$ 1,905                                   |

The weighted-average grant-date fair value of options granted during 2008 and 2007 was \$3.91 and \$3.92, respectively. For the six months ended June 30, 2009, share based compensation expense applicable to the plan was \$260,000 and the related tax benefit was \$52,000. No options have been exercised as of June 30, 2009 and no options were granted prior to July 1, 2007. As of June 30, 2009, unrecognized stock-based compensation expense related to nonvested options amounted to \$1.6 million. This amount is expected to be recognized over a period of 3.08 years.

**Table of Contents****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, 2009 is \$14.29. The Company recorded compensation cost related to stock awards of approximately \$415,000 and \$141,000 of related tax benefit in the six months ended June 30, 2009. Stock awards with a fair value of \$765 vested during 2008. No stock awards have vested during 2009 and no stock awards were granted prior to July 1, 2007. As of June 30, 2009, unrecognized stock-based compensation expense related to nonvested restricted stock awards amount to \$2.6 million. This amount is expected to be recognized over a period of 3.07 years.

A summary of the status of the Company's stock awards as of June 30, 2009, and changes during the six months then ended, is as follows:

|                              | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|------------------------------|---------------------------------|---|
| <b>Nonvested Shares</b>      |                                 |   |
| Balance at December 31, 2008 | 234,755                         | \$ 14.29  |
| Granted                      |                                 |   |
| Vested                       |                                 |   |
| Forfeited                    |                                 |   |
| Balance at June 30, 2009     | 234,755                         | \$ 14.29  |



**Table of Contents****4. Recent Accounting Pronouncements**

In May 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 165, *Subsequent Events*, which establishes general standards of and accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This Statement was effective for interim and annual periods ending after June 15, 2009. The Company has complied with the requirements of SFAS No. 165.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* to improve the reporting for the transfer of financial assets resulting from (1) practices that have developed since the issuance of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of SFAS No. 166 and comply with its requirements. The Company does not expect that the adoption of this Statement will have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The Statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of SFAS No. 167 and comply with its requirements. The Company does not expect that the adoption of this Statement will have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162*. Under the Statement, The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In the FASB's view, the issuance of this Statement and the Codification will not change GAAP, except for those nonpublic nongovernmental entities that must now apply the American Institute of Certified Public Accountants Technical Inquiry Service Section 5100, Revenue Recognition, paragraphs 38–76. The Company does not expect that the adoption of this Statement will have a material impact on the Company's consolidated financial statements.

**Reclassification**

Certain amounts in the 2008 financial statements have been reclassified to conform to the current period's presentation. These reclassifications had no effect on the net income previously reported.

**Table of Contents****5. 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 operations, 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 or loss). Other comprehensive income or loss, along with net income or loss, comprises the Company's total comprehensive income or loss.

Comprehensive income (loss) is comprised of the following:

|  | <b>Three Months Ended<br/>June 30,</b> |                |
|--|--|----------------|
|  | <b>2009</b>                            | <b>2008</b>    |
|  | <b>(Dollars In Thousands)</b>          |                |
| Net income (loss)  | \$ (174)                               | \$ 128         |
| Other comprehensive income (loss), net of tax:   |  |                |
| Unrealized holding gains (losses) on available-for-sale securities arising during the period                       | 804                                    | (132)          |
| Reclassification adjustment for (gain) loss on sale of available-for-sale securities included in net income (loss) | 9                                      | (100)          |
| Tax effect   | (283)                                  | 81             |
| Other comprehensive income (loss), net of tax  | 530                                    | (151)          |
| <b>Total comprehensive income (loss)</b>   | <b>\$ 356</b>                          | <b>\$ (23)</b> |

|   | <b>Six Months Ended<br/>June 30,</b> |                 |
|---|--------------------------------------|-----------------|
|   | <b>2009</b>                          | <b>2008</b>     |
|   | <b>(Dollars In Thousands)</b>        |                 |
| Net income (loss)   | \$ (59)                              | \$ 317          |
| Other comprehensive income (loss), net of tax:  |                                      |                 |
| Unrealized holding gains (losses) on available-for-sale securities arising during the period                | 46                                   | (527)           |
| Reclassification adjustment for gain on sale of available-for-sale securities included in net income (loss) | (27)                                 | (115)           |
| Tax effect  | (7)                                  | 224             |
| Other comprehensive income (loss), net of tax   | 12                                   | (418)           |
| <b>Total comprehensive loss</b>   | <b>\$ (47)</b>                       | <b>\$ (101)</b> |

**Table of Contents****6. Defined Benefit Pension Plan**

Prior to January 31, 2007, the Company sponsored a noncontributory defined benefit plan through its membership in the Savings Bank Employees Retirement Association ( SBERA ).

As of January 31, 2007, the Company terminated the Pension Plan. As of June 30, 2009, the Bank had no accrued liability. All funds from the Plan were distributed on July 16, 2008 to all eligible employees who were active when the plan terminated.

For the three and six months ended June 30, 2008 the components of the net periodic benefit cost are as follows:

|  | <b>Three Months Ended<br/>June 30, 2008<br/>(Dollars In Thousands)</b>   |
|--|--|
| Service cost   | \$   |
| Interest cost  | 51   |
| Amortization of transition obligation  |  |
| Expected return on assets  | (51)   |
| Recognized net actuarial loss  |  |
| Net periodic benefit cost  | \$   |
| Weighted-average discount rate assumption used to determine benefit obligation | 4.79%  |
| Weighted-average discount rate assumption used to determine net benefit cost   | 4.79%  |
|  |  |
|  | <b>Six Months Ended<br/>June 30, 2008<br/>(Dollars In<br/>Thousands)</b> |
| Service cost   | \$   |
| Interest cost  | 102  |
| Amortization of transition obligation  |  |
| Expected return on assets  | (102)  |
| Recognized net actuarial loss  |  |
| Net periodic benefit cost  | \$   |
| Weighted-average discount rate assumption used to determine benefit obligation | 4.79%  |
| Weighted-average discount rate assumption used to determine net benefit cost   | 4.79%  |

**Table of Contents****7. Unrealized losses on Investment Securities**

Management conducts, at least on a quarterly basis, a review of our investment securities including available-for-sale ( AFS ) and held-to-maturity ( HTM ) securities to determine if the value of any security has declined below its cost or amortized cost and whether such decline is other-than-temporary impairment ( OTTI ). Securities are evaluated individually based on guidelines established by SAB 59 and SAS No. 92 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; and (4) whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions.

Declines in the fair value of securities below their cost that are deemed to be other than temporarily impaired, are recognized through earnings as realized losses in the period in which the impairment is identified.

The following table presents the fair value of investments with continuous unrealized losses for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of June 30, 2009 and December 31, 2008:

|  | Less Than Twelve Months      |                         | June 30, 2009<br>Twelve Months and Over<br>(In Thousands) |                         | Total            |                         |
|--|------------------------------|-------------------------|---|-------------------------|------------------|-------------------------|
|  | Fair Value                   | Gross Unrealized Losses | Fair Value  | Gross Unrealized Losses | Fair Value       | Gross Unrealized Losses |
|  | Marketable equity securities | \$ 2,610                | \$ (1,032)  | \$ 1,889                | \$ (1,297)       | \$ 4,499                |
| U.S. Treasury securities                     | 6,097                        | (1)                     |   |                         | 6,097            | (1)                     |
| <b>Total temporarily impaired securities</b> | <b>\$ 8,707</b>              | <b>\$ (1,033)</b>       | <b>\$ 1,889</b>   | <b>\$ (1,297)</b>       | <b>\$ 10,596</b> | <b>\$ (2,330)</b>       |

|  | Less Than Twelve Months      |                         | December 31, 2008<br>Twelve Months and Over<br>(In Thousands) |                         | Total           |                         |
|--|------------------------------|-------------------------|---|-------------------------|-----------------|-------------------------|
|  | Fair Value                   | Gross Unrealized Losses | Fair Value  | Gross Unrealized Losses | Fair Value      | Gross Unrealized Losses |
|  | Marketable equity securities | \$ 3,204                | \$ (1,486)  | \$ 1,391                | \$ (884)        | \$ 4,595                |
| Collateralized mortgage obligations          |                              |                         | 3,501   | (29)                    | 3,501           | (29)                    |
| <b>Total temporarily impaired securities</b> | <b>\$ 3,204</b>              | <b>\$ (1,486)</b>       | <b>\$ 4,892</b>   | <b>\$ (913)</b>         | <b>\$ 8,096</b> | <b>\$ (2,399)</b>       |

Unrealized losses within the U.S. Treasury securities category at June 30, 2009, relate to three U.S. Treasury securities of which all had losses for less than 12 months. The losses were less than \$1,000. Unrealized losses within the collateralized mortgage obligations category at December 31, 2008, relate to 15 securities of which all had continuous losses for more than one year. Management reviews these securities on a regular basis for OTTI and considers if the issuer is an agency sponsored by the U.S.

**Table of Contents**

Government and whether downgrades by rating agencies have occurred. The primary cause for unrealized losses within the debt securities categories is the impact movement in interest rates have had in comparisons with the underlying yields on these securities. Since the unrealized losses are related to the interest rate environment and management has the ability to hold debt securities to maturity, or the foreseeable future, no declines are considered by management to be other than temporary.

**Marketable Equity Securities.**

Unrealized losses within the marketable equity securities category at June 30, 2009 relate to 111 securities, or 60 companies, of which 52 securities, or 29 companies, had continuous losses for more than one year. The total unrealized loss on equities decreased \$41,000 since December 31, 2008. Unrealized loss as a percent of cost was 34.1%. Unrealized losses within the marketable equity securities category at December 31, 2008 relate to 111 securities, or 65 companies, of which 37 securities, or 21 companies, had continuous losses for more than one year. Unrealized loss as a percent of cost was 34.0%.

The Company's investments in marketable equity securities in an unrealized loss position greater than 12 months are distributed in a well diversified portfolio consisting of 11 industries. The Company has securities invested in the financial industry, representing six companies; or 10% of the equity portfolio (\$520,000 of the fair value and \$230,000 of the total unrealized losses greater than 12 months). The severity of the impairment is approximately 35% to 86% of fair value less than cost, or an average of 69 percent. The Company has securities invested in the consumer staples industry, representing three companies; or 5% of the equity portfolio (\$258,000 of the fair value and \$82,000 of the total unrealized losses greater than 12 months). The severity of the impairment, on average, is approximately 76% of fair value less than cost. The Company has securities invested in the consumer discretionary industry, representing five companies; or 5% of the equity portfolio (\$246,000 of the fair value and \$268,000 of the total unrealized losses greater than 12 months). The severity of the impairment, on average, is approximately 48% of fair value less than cost. The Company has securities invested in the materials industry, representing three companies; or 3% of the equity portfolio (\$134,000 of the fair value and \$180,000 of the total unrealized losses greater than 12 months). The severity of the impairment, on average, is approximately 43% of fair value less than cost. The Company has securities invested in the industrial industry, representing two companies; or 3% of the equity portfolio (\$147,000 of the fair value and \$174,000 of the total unrealized losses greater than 12 months). The severity of the impairment, on average, is approximately 46% of fair value less than cost. The Company has securities invested in the health care industry, representing three companies; or 3% of the equity portfolio (\$187,000 of the fair value and \$113,000 of the total unrealized losses greater than 12 months). The severity of the impairment, on average, is approximately 62% of fair value less than cost. The severity of the impairments for all industries, except health care, correlate with general market conditions, which reflect prospects for the economy as a whole. Pharmaceutical companies are experiencing declines in stock value mostly due to patent expirations and uncertainty regarding health care reform.

During the three months ended June 30, 2009, management determined that one of the companies in the financial industry had other-than-temporary impairment for which a charge was recorded in the amount of \$106,000. The security was deemed to be other-than-temporarily impaired as a result of the combined factors of percentage and length of time that the security has been below book value and because the Company does not expect the current price of the security to improve meaningfully over the near-term.

The Company evaluated the near-term prospects of the remaining issuers in relation to the severity and duration of the impairments. Based on that evaluation and the Company's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2009.

**Table of Contents**

**8. Fair Value of Financial Instruments**

Effective January 1, 2008, the Company adopted SFAS No. 157 *Fair Value Measurements*, which provides a framework for measuring fair value under U.S. generally accepted accounting principles.

The Company did not adopt SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB Statement No. 115.

In accordance with SFAS No. 157, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value.

**Level 1** Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury Notes and U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**Level 2** Valuations for assets and liabilities with inputs that are observable either directly or indirectly for substantially the full term. Level 2 also includes assets and liabilities traded in inactive markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities or from models arising from observable inputs.

**Level 3** Valuations for assets and liabilities with inputs that are unobservable, which are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

**Table of Contents**

Assets measured at fair value on a recurring basis are summarized below:

|                               | June 30, 2009 | Fair Value Measurements Using  |   |   |
|-------------------------------|---------------|--|---|---|
|                               |               | Quoted Prices in Active Markets for Identical Assets (Level 1)<br>(Dollars In Thousands) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Assets</b>                 |               |  |   |   |
| Securities available-for-sale | \$ 5,352      | \$ 5,352   | \$  | \$  |

|                               | December 31, 2008 | Fair Value Measurements Using  |   |   |
|-------------------------------|-------------------|--|---|---|
|                               |                   | Quoted Prices in Active Markets for Identical Assets (Level 1)<br>(Dollars In Thousands) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Assets</b>                 |                   |  |   |   |
| Securities available-for-sale | \$ 5,268          | \$ 5,268   | \$  | \$  |

The valuation approach used to value the securities available-for-sale was the market approach.

**Table of Contents**

Also, the Company may be required, from time to time, to measure certain other financial assets on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets.

|                | June 30, 2009 | Fair Value Measurements Using   |   |  |
|----------------|---------------|---|---|--|
|                |               | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1)<br>(Dollars In Thousands) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>  |               |   |   |  |
| Impaired loans | \$ 9,523      | \$  | \$ 9,523  | \$   |

|                | December 31, 2008 | Fair Value Measurements Using   |   |  |
|----------------|-------------------|---|---|--|
|                |                   | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1)<br>(Dollars In Thousands) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>  |                   |   |   |  |
| Impaired loans | \$ 6,869          | \$  | \$ 6,869  | \$   |

In accordance with the provisions for SFAS No. 114, a valuation reserve of \$138,000 and \$110,000 as of June 30, 2009 and December 31, 2008, respectively was included in the allowance for loan losses for the above impaired loans. The amount of impaired loans represents the carrying value, net of the related allowance for loan losses on impaired loans for which adjustments are based on the appraised value of the collateral which is based on the market approach of valuation.

SFAS No. 107-1 and Accounting Principal Board 28-1, Interim Disclosures about Fair Value of Financial Instruments, requires disclosures about the fair value of financial instruments for interim reporting periods. The disclosures exclude certain financial instruments and all non financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair values.

Securities: Fair values for securities, excluding Federal Home Loan Bank stock, are based on quoted market prices. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.



**Table of Contents**

**Loans receivable:** For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

**Deposit liabilities and mortgagors escrow accounts:** The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits.

**Securities sold under agreements to repurchase:** The carrying amounts of borrowings under repurchase agreements maturing within ninety days approximate their fair values.

**Advances from Federal Home Loan Bank:** The fair values of these borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

**Accrued interest and dividends:** The carrying amounts of accrued interest and dividends approximate fair value.

**Off-balance-sheet instruments:** The Company's off-balance-sheet instruments consist of loan commitments. Fair values for loan commitments have not been presented as the future revenue derived from such financial instruments is not significant.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

|   | June 30, 2009   |            | December 31, 2008 |            |
|---|-----------------|------------|-------------------|------------|
|   | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial assets:</b>                  |                 |            |                   |            |
| Cash and cash equivalents                 | \$ 48,324       | \$ 48,324  | \$ 23,100         | \$ 23,100  |
| Securities available-for-sale             | 5,352           | 5,352      | 5,268             | 5,268      |
| Securities held-to-maturity               | 37,277          | 37,351     | 49,662            | 49,673     |
| Federal Home Loan Bank stock              | 4,306           | 4,306      | 4,306             | 4,306      |
| Loans, net                                | 414,116         | 411,475    | 416,076           | 423,171    |
| Accrued interest and dividends receivable | 1,458           | 1,458      | 1,577             | 1,577      |
| <b>Financial liabilities:</b>             |                 |            |                   |            |
| Deposits                                  | 374,001         | 370,702    | 334,767           | 338,914    |
| Repurchase agreements                     | 15,348          | 15,348     | 21,956            | 21,956     |
| Advances from Federal Home Loan Bank      | 55,684          | 56,877     | 76,567            | 78,297     |
| Accrued interest payable                  | 131             | 131        | 138               | 138        |

**Table of Contents**

**9. Subsequent Events**

Subsequent events per SFAS No. 165, *Subsequent Events*, represent events or transactions occurring after the balance sheet date but before the financial statements are issued or are available to be issued. Financial statements are considered issued when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP. Financial statements are considered available to be issued when they are complete in form and format that complies with GAAP and all approvals necessary for their issuance have been obtained.

Specifically, there are two types of subsequent events:

Those comprising events or transactions providing additional evidence about conditions that existed at the balance sheet date, including estimates inherent in the financial statement preparation process (referred to as recognized subsequent events).

Those comprising events that provide evidence about conditions not existing at the balance sheet date but, rather, that arose after such date (referred to as non-recognized subsequent events).

Subsequent events have been evaluated through July 30, 2009, the date the June 30, 2009 financial statements were available to be issued.

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## **Table of Contents**

### **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 and six months ended June 30, 2009 and 2008, 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. Additional factors are discussed in the Company's 2008 Annual Report on Form 10-K under Item 1A-Risk Factors. 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 June 30, 2009, we operated out of our main office, lending and operations center, and seven branch offices in Chicopee, Ludlow, South Hadley, Ware, and West Springfield in Western Massachusetts.

### **Comparison of Financial Condition at June 30, 2009 and December 31, 2008**

The Company's assets grew \$11.8 million, or 2.2%, to \$539.5 million at June 30, 2009 compared to \$527.7 million at December 31, 2008, primarily as a result of an increase in cash and cash equivalents of \$25.2 million, partially offset by a decrease in held-to-maturity securities of \$12.4 million. Total net loans decreased to \$414.1 million from \$416.1 million as of December 31, 2008, with one-to-four family loans decreasing \$9.6 million, partially offset by commercial business loans increasing \$4.4 million, and commercial real estate loans increasing \$3.5 million.

The balance sheet expansion was funded by an increase in deposits of \$39.2 million. Total deposits at June 30, 2009 were \$374.0 million compared to \$334.8 million at December 31, 2008. During the period, money market accounts and demand deposits increased \$23.1 million and \$5.2 million, respectively. Certificates of deposit balances increased \$8.4 million, or 4.2%, to \$209.2 million at June 30, 2009.

**Table of Contents**

Total stockholders' equity increased \$173,000, or 0.2%, to \$94.2 million at June 30, 2009 compared to \$94.0 million at December 31, 2008, resulting mainly from the decrease in unearned compensation of \$564,000, and an increase in additional paid-in-capital of \$288,000, partially offset by the purchase of 54,400 shares of the Company's common stock through the Company's stock repurchase program at a cost of \$632,000, and a net loss of \$59,000 for the period. The Company's book value per share increased to \$14.62 at June 30, 2009 compared to \$14.47 at December 31, 2008.

**Lending Activities**

At June 30, 2009, the Company's net loan portfolio was \$414.1 million, or 76.8% 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.

|   | June 30, 2009 |  | December 31, 2008 |                  |
|---|---------------|--|-------------------|------------------|
|   | Amount        | Percent of Total<br>(Dollars In Thousands) | Amount            | Percent of Total |
| Real estate loans:                      |               |  |                   |                  |
| One- to four-family <sup>1</sup>        | \$ 155,320    | 37.4%                                      | \$ 164,887        | 39.4%            |
| Multi-family                            | 11,143        | 2.7%                                       | 11,459            | 2.7%             |
| Home equity                             | 27,423        | 6.6%                                       | 27,303            | 6.5%             |
| Commercial                              | 118,338       | 28.4%                                      | 114,875           | 27.5%            |
| Total                                   | 312,224       | 75.1%                                      | 318,524           | 76.1%            |
| Construction-residential                | 9,561         | 2.3%                                       | 8,431             | 2.1%             |
| Construction-commercial                 | 31,044        | 7.5%                                       | 33,198            | 7.9%             |
| Total construction                      | 40,605        | 9.8%                                       | 41,629            | 10.0%            |
| Total real estate loans                 | 352,829       | 84.9%                                      | 360,153           | 86.1%            |
| Consumer loans                          | 4,247         | 1.0%                                       | 3,926             | 0.9%             |
| Commercial loans                        | 58,603        | 14.1%                                      | 54,255            | 13.0%            |
| Total loans                             | 415,679       | 100%                                       | 418,334           | 100%             |
| Undisbursed portion of loans in process | 932           |  | 72                |                  |
| Net deferred loan origination costs     | 980           |  | 1,003             |                  |
| Allowance for loan losses               | (3,475)       |  | (3,333)           |                  |
| Loans, net                              | \$ 414,116    |  | \$ 416,076        |                  |

<sup>1</sup> Excludes loans held for sale of \$501 and \$185 at June 30, 2009 and December 31, 2008, respectively.

Net loans decreased \$2.0 million, or 0.5%, to \$414.1 million at June 30, 2009. The decrease was partially due to the \$9.6 million, or 5.8%, decrease in one- to four-family residential loans from \$164.9 million to \$155.3 million, a result of prepayments and refinancing activity attributed to the decline in interest rates to historically low levels. The decrease in one- to four-family real estate loans and construction loans of \$1.0 million was partially offset by an increase in



**Table of Contents**

commercial real estate loans of \$3.5 million and an increase in commercial and industrial loans of \$4.4 million. In order to reduce interest rate risk, the Company sold \$28.3 million of fixed rate, low coupon residential real estate loans originated in 2009 to the secondary market. Servicing rights will continue to be retained on all loans written and sold to the secondary market.

**Non-performing Assets**

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

|  | June 30,<br>2009       | December 31,<br>2008 |
|--|------------------------|----------------------|
|  | (Dollars In Thousands) |                      |
| Nonaccrual loans:  |                        |                      |
| Residential mortgages  | \$ 2,098               | \$ 2,358             |
| Construction   |                        | 97                   |
| Commercial mortgages   | 179                    | 237                  |
| Commercial & Industrial  | 320                    | 139                  |
| Home Equity  | 124                    | 79                   |
| Consumer   | 30                     | 6                    |
| <br>   |                        |                      |
| Total nonaccrual loans   | 2,751                  | 2,916                |
| Real estate owned, net   | 206                    | 269                  |
| <br>   |                        |                      |
| Total nonperforming assets                                       | \$ 2,957               | \$ 3,185             |
| <br>   |                        |                      |
| Ratios:  |                        |                      |
| Total nonperforming loans as a percentage of total loans (1) (2) | 0.66%                  | 0.69%                |
| Total nonperforming assets as a percentage of total assets (2)   | 0.55%                  | 0.60%                |

(1) Total loans includes net loans plus the allowance for loan losses.

(2) Nonperforming assets consist of nonperforming loans and OREO. Nonperforming loans consist of all loans 90 days or more past due. Nonaccrual loans decreased \$165,000 or 5.7% to \$2.8 million as of June 30, 2009 compared to \$2.9 million as of December 31, 2008. The decrease was primarily due to nine residential mortgage loans with a total balance of \$1.1 million that became current with payments, offset by the addition of five residential mortgage loans with a total balance of \$840,000.

**Allowance for Loan Losses**

Management prepares a loan loss analysis on a monthly 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 inherent probable losses in the loan portfolio. Management's on-going evaluation is based on 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 probable 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.

**Table of Contents**

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 loss experience in the near term may differ from the amounts reflected in this report.

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 Company classifies property acquired through foreclosure or acceptance of a deed in lieu of foreclosure as other real estate owned (OREO) in its consolidated financial statements. When property is placed into OREO, it is recorded at market less estimated costs to sell at the date of foreclosure or acceptance of deed in lieu of foreclosure. At the time of transfer to OREO, any excess of carrying value over fair value is charged to the allowance for loan losses. Management, or its designee, inspects all OREO property periodically. Holding costs and sales below carrying value result in charges to expense after the property is acquired. At June 30, 2009, the Company had one residential real estate property of \$206,000 classified as OREO.

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

**Table of Contents**

|   | <b>At or for the Six Months<br/>Ended June 30,<br/>2009                      2008<br/>(Dollars In Thousands)</b> |             |
|---|--|-------------|
| Allowance for loan losses at beginning of period, December 31 | \$ 3,333   | \$ 3,076    |
| Charged-off loans:  |  |             |
| Residential mortgages   |  |             |
| Construction  |  |             |
| Commercial mortgages  |  |             |
| Commercial & Industrial                                       | (9)  |             |
| Home equity   |  |             |
| Consumer  | (23)   | (31)        |
| <b>Total charged-off loans</b>                                | <b>(32)</b>  | <b>(31)</b> |
| Recoveries on loans previously charged-off:                   |  |             |
| Residential mortgages   |  |             |
| Construction  |  |             |
| Commercial mortgages  |  |             |
| Commercial & Industrial                                       |  |             |
| Home equity   |  |             |
| Consumer  | 9  | 8           |
| <b>Total recoveries</b>                                       | <b>9</b>   | <b>8</b>    |
| Net loan charge-offs  | (23)   | (23)        |
| Provision for loan losses                                     | 165  | 272         |
| Allowance for loan losses, end of period                      | \$ 3,475   | \$ 3,325    |
| <b>Ratios:</b>  |  |             |
| Net loan charge-offs to average loans, net                    | (0.01)%  | (0.01)%     |
| Allowance for loan losses to total loans (1)                  | 0.83%  | 0.81%       |
| Allowance for loan losses to nonperforming loans (2)          | 126.32%  | 181.10%     |
| Recoveries to charge-offs                                     | (28.13)%   | (25.81)%    |

- (1) Total loans includes net loans plus the allowance for loan losses.  
(2) Nonperforming loans consist of all loans 90 days or more past due.



**Table of Contents****Investment Activities**

While the Company prefers lending as the primary use of its excess cash flows, the investment portfolio is primarily structured as a secondary role in generating revenue while managing interest-rate risk and liquidity. The securities portfolio is managed in accordance with regulatory guidelines and established internal corporate investment policies. Adverse changes in management's assessment of the factors used to determine that a security was not other-than-temporarily impaired could lead to additional impairment charges.

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:

|  | Amortized<br>Cost | June 30, 2009                                  |                               | Fair<br>Value    |
|--|-------------------|--|-------------------------------|------------------|
|  |                   | Gross<br>Unrealized<br>Gains<br>(In Thousands) | Gross<br>Unrealized<br>Losses |                  |
| <b>Securities available-for-sale</b>                     |                   |  |                               |                  |
| Marketable equity securities <sup>1</sup>                | \$ 7,514          | \$ 167   | \$ (2,329)                    | \$ 5,352         |
| <b>Total securities available-for-sale</b>               | <b>\$ 7,514</b>   | <b>\$ 167</b>                                  | <b>\$ (2,329)</b>             | <b>\$ 5,352</b>  |
| <b>Securities held-to-maturity</b>                       |                   |  |                               |                  |
| Debt securities of U.S. Government sponsored enterprises | \$ 1,988          | \$ 10  | \$                            | \$ 1,998         |
| U.S. Treasury securities                                 | 24,990            | 1  | (1)                           | 24,990           |
| Corporate and industrial revenue bonds                   | 4,035             |  |                               | 4,035            |
| Collateralized mortgage obligations                      | 6,264             | 64   |                               | 6,328            |
| <b>Total securities held-to-maturity</b>                 | <b>\$ 37,277</b>  | <b>\$ 75</b>                                   | <b>\$ (1)</b>                 | <b>\$ 37,351</b> |
|  | Amortized<br>Cost | December 31, 2008                              |                               | Fair<br>Value    |
|  |                   | Gross<br>Unrealized<br>Gains<br>(In Thousands) | Gross<br>Unrealized<br>Losses |                  |
| <b>Securities available-for-sale</b>                     |                   |  |                               |                  |
| Marketable equity securities <sup>1</sup>                | \$ 7,449          | \$ 189   | \$ (2,370)                    | \$ 5,268         |
| <b>Total securities available-for-sale</b>               | <b>\$ 7,449</b>   | <b>\$ 189</b>                                  | <b>\$ (2,370)</b>             | <b>\$ 5,268</b>  |
| <b>Securities held-to-maturity</b>                       |                   |  |                               |                  |
| Debt securities of U.S. Government sponsored enterprises | \$ 27,164         | \$ 25  | \$                            | \$ 27,189        |
| U.S. Treasury securities                                 | 11,997            | 3  |                               | 12,000           |
| Corporate and industrial revenue bonds                   | 4,060             |  |                               | 4,060            |
| Collateralized mortgage obligations                      | 6,441             | 12   | (29)                          | 6,424            |
| <b>Total securities held-to-maturity</b>                 | <b>\$ 49,662</b>  | <b>\$ 40</b>                                   | <b>\$ (29)</b>                | <b>\$ 49,673</b> |

<sup>1</sup> Does not include investments in FHLB-Boston and Banker's Bank stock totaling \$4.3 million and \$183,000, respectively, at June 30, 2009 and December 31, 2008.



**Table of Contents**

At June 30, 2009, the Company's investment securities portfolio amounted to \$42.6 million, or 7.9% of total assets. Held to maturity securities decreased \$12.4 million, or 24.9%, primarily due to maturities of debt securities of U.S. Government sponsored enterprises, partially offset by purchases of U.S. Treasury securities. Available-for-sale securities are comprised of 130 individual issues of highly traded stocks representing 73 companies. Available-for-sale securities increased in fair value by \$84,000 from December 31, 2008 as amortized cost increased by \$65,000 during the same period. Total gross unrealized losses of both held-to-maturity and available-for-sale securities decreased \$69,000 from December 31, 2008.

The Company has 25 collateralized mortgage obligation bonds with an aggregate value of \$6.3 million, which include four bonds with a FICO score of less than 650. This risk is mitigated by loan to value ratios of less than 75%. The total exposure of these four bonds to the Company is approximately \$17,000. Since the purchase of these bonds, interest payments have been current.

**Deposits**

The following table sets forth the Company's deposit accounts at the dates indicated.

| Deposit Type:                            | June 30, 2009 |   | December 31, 2008 |                           |
|--|---------------|---|-------------------|---------------------------|
|  | Balance       | Percent of Total Deposits<br>(Dollars In Thousands) | Balance           | Percent of Total Deposits |
| Demand deposits                          | \$ 35,999     | 9.63%   | \$ 30,811         | 9.20%                     |
| NOW, ATS, and other transaction accounts | 16,123        | 4.31%   | 14,702            | 4.39%                     |
| Passbook accounts                        | 40,821        | 10.91%  | 39,668            | 11.85%                    |
| Money market deposit accounts            | 71,834        | 19.21%  | 48,720            | 14.56%                    |
| Total transaction accounts               | 164,777       | 44.06%  | 133,901           | 40.00%                    |
| Certificates of deposit                  | 209,224       | 55.94%  | 200,866           | 60.00%                    |
| Total deposits                           | \$ 374,001    | 100%  | \$ 334,767        | 100%                      |

Total deposits increased by \$39.2 million, or 11.7%, to \$374.0 million at June 30, 2009 compared to \$334.8 million at December 31, 2008. The growth in deposits was recorded in all major categories and was concentrated in money market accounts and demand deposits followed by certificates of deposit. From December 31, 2008 to June 30, 2009, money market accounts increased by \$23.1 million, or 47.4%, to \$71.8 million, demand accounts increased by \$5.2 million, or 16.8%, to \$36.0 million, certificates of deposits increased by \$8.4 million, or 4.2%, to \$209.2 million, NOW accounts increased by \$1.4 million, or 9.7%, to \$16.1 million, savings accounts increased by \$1.2 million, or 2.9%, to \$40.8 million. The growth in deposits reflects continued success in our commercial deposits and our marketing efforts in servicing municipalities.

**Table of Contents****Borrowings**

The following sets forth information concerning our borrowings for the periods indicated.

|   | Six Months Ended<br>June 30, 2009 | Year Ended<br>December 31, 2008 |
|---|-----------------------------------|---------------------------------|
|   | (Dollars In Thousands)            |                                 |
| <b>Maximum amount of advances outstanding at any month-end during the period:</b> |                                   |                                 |
| FHLB Advances   | \$ 71,258                         | \$ 76,567                       |
| Securities sold under agreements to repurchase                                    | 27,334                            | 38,557                          |
| Other borrowings  |                                   | 50                              |
| <b>Average advances outstanding during the period:</b>                            |                                   |                                 |
| FHLB Advances   | \$ 63,803                         | \$ 45,872                       |
| Securities sold under agreements to repurchase                                    | 22,592                            | 23,191                          |
| Other borrowings  |                                   | 25                              |
| <b>Weighted average interest rate during the period:</b>                          |                                   |                                 |
| FHLB Advances   | 2.55%                             | 3.16%                           |
| Securities sold under agreements to repurchase                                    | 1.02%                             | 1.50%                           |
| Other borrowings  | 0.00%                             | 7.00%                           |
| <b>Balance outstanding at end of period:</b>                                      |                                   |                                 |
| FHLB Advances <sup>1</sup>  | \$ 55,684                         | \$ 76,567                       |
| Securities sold under agreements to repurchase                                    | 15,348                            | 21,956                          |
| Other borrowings  |                                   |                                 |
| <b>Weighted average interest rate at end of period:</b>                           |                                   |                                 |
| FHLB Advances   | 3.04%                             | 2.24%                           |
| Securities sold under agreements to repurchase                                    | 1.00%                             | 1.25%                           |
| Other borrowings  | 0.00%                             | 0.00%                           |

<sup>1</sup> Balance includes a one time put option of \$5 million, the FHLB may call this advance on June 30, 2011. We utilize borrowings from a variety of sources to supplement our supply of funds for loans and investments.

**Comparison of Operating Results for the Three Months Ended June 30, 2009 and 2008****General**

There was a net loss of \$174,000 for the quarter ended June 30, 2009 compared to net income of \$128,000 for the same quarter last year, resulting in a decrease in income of \$302,000. The decrease in net income for the three months ended June 30, 2009 is primarily due to the special FDIC insurance assessment of \$229,000 and other-than-temporary impairment charge of \$106,000. The narrowing of the net interest margin from 3.29% in 2008 to 3.21% in 2009 also contributed to the net loss for the quarter.

**Analysis of Net Interest Income**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth average balances, interest income and expense and yields earned or rates paid on the major categories of assets and liabilities for the periods indicated. The average yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively. The yields and costs are annualized. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields. Loan interest and yield data does not include any accrued interest from nonaccruing loans.



**Table of Contents**

|   | For the Three Months Ended June 30, |          |   |                    |          |                           |
|---|-------------------------------------|----------|---|--------------------|----------|---------------------------|
|   | 2009                                |          |   | 2008               |          |                           |
|   | Average<br>Balance                  | Interest | Average<br>Yield/<br>Rate<br>(Dollars In Thousands) | Average<br>Balance | Interest | Average<br>Yield/<br>Rate |
| <b>Interest-earning assets:</b>   |                                     |          |   |                    |          |                           |
| Investment securities (1)   | \$ 49,298                           | \$ 240   | 1.95%   | \$ 52,020          | \$ 386   | 2.98%                     |
| Loans:  |                                     |          |   |                    |          |                           |
| Residential real estate loans   | 171,122                             | 2,449    | 5.74%   | 172,765            | 2,465    | 5.74%                     |
| Commercial real estate loans  | 157,142                             | 2,392    | 6.11%   | 146,796            | 2,361    | 6.47%                     |
| Consumer loans  | 31,615                              | 408      | 5.18%   | 28,572             | 417      | 5.87%                     |
| Commercial loans  | 57,701                              | 673      | 4.68%   | 50,586             | 728      | 5.79%                     |
| Loans, net  | 417,580                             | 5,922    | 5.69%   | 398,719            | 5,971    | 6.02%                     |
| Other   | 19,743                              | 7        | 0.14%   | 6,034              | 35       | 2.33%                     |
| Total interest-earning assets   | 486,621                             | 6,169    | 5.08%   | 456,773            | 6,392    | 5.63%                     |
| Noninterest-earning assets  | 40,107                              |          |   | 30,785             |          |                           |
| Total assets  | \$ 526,728                          |          |   | \$ 487,558         |          |                           |
| <b>Interest-bearing liabilities:</b>  |                                     |          |   |                    |          |                           |
| Deposits:   |                                     |          |   |                    |          |                           |
| Money market accounts   | \$ 58,725                           | \$ 140   | 0.96%   | \$ 40,966          | \$ 188   | 1.85%                     |
| Savings accounts (2)  | 40,847                              | 38       | 0.37%   | 38,686             | 66       | 0.69%                     |
| NOW, ATS, and other transaction accounts                                      | 16,353                              | 10       | 0.25%   | 14,606             | 15       | 0.41%                     |
| Certificates of deposit   | 201,852                             | 1,634    | 3.25%   | 197,093            | 1,982    | 4.04%                     |
| Total interest-bearing deposits   | 317,777                             | 1,822    | 2.30%   | 291,351            | 2,251    | 3.11%                     |
| FHLB advances   | 60,465                              | 401      | 2.66%   | 42,556             | 310      | 2.93%                     |
| Securities sold under agreement to repurchase                                 | 21,880                              | 55       | 1.01%   | 24,854             | 90       | 1.46%                     |
| Other borrowings  |                                     |          | 0.00%   | 32                 | 1        | 7.00%                     |
| Total interest-bearing borrowings   | 82,345                              | 456      | 2.22%   | 67,442             | 401      | 2.39%                     |
| Total interest-bearing liabilities  | 400,122                             | 2,278    | 2.28%   | 358,793            | 2,652    | 2.97%                     |
| Demand deposits   | 31,854                              |          |   | 27,915             |          |                           |
| Other noninterest-bearing liabilities   | 159                                 |          |   | 928                |          |                           |
| Total liabilities   | 432,135                             |          |   | 387,636            |          |                           |
| Total stockholders' equity  | 94,593                              |          |   | 99,922             |          |                           |
| Total liabilities and stockholders' equity                                    | \$ 526,728                          |          |   | \$ 487,558         |          |                           |
| Net interest-earning assets   | \$ 86,499                           |          |   | \$ 97,980          |          |                           |
| Tax equivalent net interest income/interest rate spread (3)                   |                                     | 3,891    | 2.80%   |                    | 3,740    | 2.66%                     |
| Tax equivalent net interest income as a percentage of interest-earning assets |                                     |          | 3.21%   |                    |          | 3.29%                     |

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|  |          |          |
|--|----------|----------|
| Ratio of interest-earning assets to interest-bearing liabilities | 121.62%  | 127.31%  |
| Less: tax equivalent adjustment (1)                              | (37)     | (39)     |
| Net interest income as reported on statement of operations       | \$ 3,854 | \$ 3,701 |

- (1) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%. The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the statement of operations. See Explanation of Use of Non-GAAP Financial Measurements .
- (2) Money market accounts include mortgagors' escrow deposits.
- (3) Tax equivalent interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

**Table of Contents**

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's tax equivalent interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

|  | <b>Three Months Ended June 30,<br/>2009 compared to 2008</b> |             |            |
|--|--|-------------|------------|
|  | <b>Increase (Decrease)</b>                                   |             |            |
|  | <b>Volume</b>  | <b>Rate</b> | <b>Net</b> |
|  | <b>(Dollars In Thousands)</b>                                |             |            |
| <b>Interest-earning assets:</b>                |  |             |            |
| Investment securities (1)                      | \$ 99  | \$ (245)    | \$ (146)   |
| <b>Loans:</b>                                  |  |             |            |
| Residential real estate loans                  | (19)   | 3           | (16)       |
| Commercial real estate loans                   | 462  | (431)       | 31         |
| Consumer loans                                 | 43   | (52)        | (9)        |
| Commercial loans                               | 98   | (153)       | (55)       |
| Total loans                                    | 584  | (633)       | (49)       |
| Other  | 28   | (56)        | (28)       |
| Total interest-earning assets                  | \$ 711   | \$ (934)    | \$ (223)   |
| <b>Interest-bearing liabilities:</b>           |  |             |            |
| <b>Deposits:</b>                               |  |             |            |
| Money market accounts                          | \$ 64  | \$ (112)    | \$ (48)    |
| Savings accounts (2)                           | 4  | (32)        | (28)       |
| NOW, ATS, and other transaction accounts       | 2  | (7)         | (5)        |
| Certificates of deposit                        | 48   | (396)       | (348)      |
| Total deposits                                 | 118  | (547)       | (429)      |
| FHLB advances                                  | 122  | (31)        | 91         |
| Securities sold under agreement to repurchase  | (10)   | (25)        | (35)       |
| Other borrowings                               |  | (1)         | (1)        |
| Total interest-bearing borrowings              | 112  | (57)        | 55         |
| Total interest-bearing liabilities             | 230  | (604)       | (374)      |
| Increase (decrease) in net interest income (3) | \$ 481   | \$ (330)    | \$ 151     |

(1) The changes in state and municipal income are reflected on a tax equivalent basis using a tax rate of 41%.

(2) Includes interest on mortgagors' escrow deposits.

(3) The changes in net interest income are reflected on a tax equivalent basis and thus do not correspond to the statement of income.



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**Table of Contents**

Net interest income, on a tax equivalent basis, increased \$151,000, or 4.0%, to \$3.9 million for the three months ended June 30, 2009 compared to \$3.7 million for the same period in 2008, mainly driven by a reduction in the cost of liabilities in excess of the reduction in the yield of assets. Net interest margin decreased 8 basis points to 3.21% for the three months ended June 30, 2009 from the comparable period in 2008 primarily due to the decreasing interest rate environment.

Interest and dividend income, on a tax equivalent basis, declined \$223,000, or 3.5%, to \$6.2 million for the three months ended June 30, 2009 compared to \$6.4 million for the same period last year. Average interest-earning assets totaled \$486.6 million for the three months ended June 30, 2009 compared to \$456.8 million for the same period last year, an increase of \$29.8 million, or 6.5%. Average loans increased \$18.9 million, or 4.7%, primarily due to strong originations. Average investment securities decreased \$2.7 million for the period, and average investment securities interest income declined \$146,000, or 37.8%, due to falling interest rates. The yield on average interest-earning assets decreased 55 basis points to 5.08% for the three months ended June 30, 2009, principally as a result of lower market rates of interest.

Total interest expense decreased \$374,000, or 14.1%, to \$2.3 million for the three months ended June 30, 2009 from \$2.7 million for the same period in 2008, resulting primarily from the decreasing interest rate environment. Average interest-bearing liabilities increased \$41.3 million, or 11.5%, to \$400.1 million for the three months ended June 30, 2009 from \$358.8 million for the comparable period in 2008, reflecting an increase in interest-bearing deposits and FHLB advances. Rates paid on average interest-bearing liabilities declined 69 basis points to 2.28% for the second quarter of 2009, largely reflecting the lower market interest rates. The lower interest rate environment led to a decrease in rates paid for certificates of deposit as well as the repricing of a portion of the Company's outstanding certificates of deposit.

***Provision for Loan Losses***

The provision for loan losses for the second quarter of 2009 was \$71,000 compared to \$262,000 for the same period in 2008. The decrease in the provision for loan losses was primarily due to the decrease in total loans outstanding and the decrease in nonperforming loans.

***Non-interest Income***

Total non-interest income increased \$76,000, or 12.3%, to \$696,000 for the second quarter of 2009 compared to \$620,000 for the same period in 2008, primarily due to the increase in income from loan sales of \$238,000, offset by the decrease in income from sales of available-for-sale securities of \$109,000.

***Non-interest Expenses***

Non-interest expenses increased \$920,000, or 23.7%, to \$4.8 million for the three months ended June 30, 2009 compared to \$3.9 million in the second quarter of 2008. The increase is primarily attributable to a special FDIC insurance assessment of \$229,000 and other-than-temporary impairment charge of \$106,000. The increase is also attributable to the increase in occupancy and furniture and equipment expenses of \$195,000 for the second quarter of 2009, reflecting the bank's expansion that included two additional branch locations.

***Income Taxes***

The Company's income tax expense decreased \$198,000, or 412.5%, to a tax benefit of \$150,000 for the second quarter of 2009 compared to tax expense of \$48,000 in the second quarter of 2008. The Company's combined federal and state effective tax rate was (46.3%), reflecting the net loss for the three months ended June 30, 2009, compared to 27.3% for the same period in 2008.

**Table of Contents**

**Comparison of Operating Results for the Six Months Ended June 30, 2009 and 2008**

***General***

There was a net loss of \$59,000 for the six months ended June 30, 2009 compared to net income of \$317,000 for the same period last year, resulting in a decrease in income of \$376,000. The decrease in net income for the six months ended June 30, 2009 is primarily due to the special FDIC insurance assessment of \$229,000 and other-than-temporary impairment charge of \$106,000. The narrowing of the net interest margin from 3.29% in 2008 to 3.19% in 2009 also contributed to the net loss for the period.

***Analysis of Net Interest Income***

The following table sets forth average balances, interest income and expense and yields earned or rates paid on the major categories of assets and liabilities for the periods indicated. The average yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively. The yields and costs are annualized. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields. Loan interest and yield data does not include any accrued interest from non-accruing loans.

**Table of Contents**

|   | For the Six Months Ended June 30, |          |   |                    |          |                           |
|---|-----------------------------------|----------|---|--------------------|----------|---------------------------|
|   | 2009                              |          |   | 2008               |          |                           |
|   | Average<br>Balance                | Interest | Average<br>Yield/<br>Rate<br>(Dollars In Thousands) | Average<br>Balance | Interest | Average<br>Yield/<br>Rate |
| <b>Interest-earning assets:</b>   |                                   |          |   |                    |          |                           |
| Investment securities (1)   | \$ 49,307                         | \$ 454   | 1.86%   | \$ 43,939          | \$ 741   | 3.39%                     |
| Loans:  |                                   |          |   |                    |          |                           |
| Residential real estate loans   | 172,890                           | 4,929    | 5.75%   | 170,801            | 4,933    | 5.81%                     |
| Commercial real estate loans  | 157,293                           | 4,778    | 6.13%   | 143,919            | 4,671    | 6.53%                     |
| Consumer loans  | 31,455                            | 812      | 5.21%   | 27,774             | 844      | 6.11%                     |
| Commercial loans  | 56,602                            | 1,301    | 4.64%   | 48,222             | 1,458    | 6.08%                     |
| Loans, net  | 418,240                           | 11,820   | 5.70%   | 390,716            | 11,906   | 6.13%                     |
| Other   | 16,048                            | 7        | 0.09%   | 10,267             | 172      | 3.37%                     |
| Total interest-earning assets   | 483,595                           | 12,281   | 5.12%   | 444,922            | 12,819   | 5.79%                     |
| Noninterest-earning assets  | 42,577                            |          |   | 29,764             |          |                           |
| Total assets  | \$ 526,172                        |          |   | \$ 474,686         |          |                           |
| <b>Interest-bearing liabilities:</b>  |                                   |          |   |                    |          |                           |
| Deposits:   |                                   |          |   |                    |          |                           |
| Money market accounts   | \$ 54,767                         | \$ 253   | 0.93%   | \$ 39,609          | \$ 434   | 2.20%                     |
| Savings accounts (2)  | 40,421                            | 76       | 0.38%   | 39,006             | 139      | 0.72%                     |
| NOW, ATS, and other transaction accounts                                      | 15,827                            | 27       | 0.34%   | 14,418             | 30       | 0.42%                     |
| Certificates of deposit   | 202,214                           | 3,346    | 3.34%   | 200,723            | 4,294    | 4.30%                     |
| Total interest-bearing deposits   | 313,229                           | 3,702    | 2.38%   | 293,756            | 4,897    | 3.35%                     |
| FHLB advances   | 63,803                            | 806      | 2.55%   | 30,153             | 468      | 3.12%                     |
| Securities sold under agreement to repurchase                                 | 22,592                            | 114      | 1.02%   | 20,954             | 180      | 1.73%                     |
| Other borrowings  |                                   |          | 0.00%   | 39                 | 2        | 7.00%                     |
| Total interest-bearing borrowings   | 86,395                            | 920      | 2.15%   | 51,146             | 650      | 2.56%                     |
| Total interest-bearing liabilities  | 399,624                           | 4,622    | 2.33%   | 344,902            | 5,547    | 3.23%                     |
| Demand deposits   | 31,855                            |          |   | 27,253             |          |                           |
| Other noninterest-bearing liabilities   | 208                               |          |   | 940                |          |                           |
| Total liabilities   | 431,687                           |          |   | 373,095            |          |                           |
| Total stockholders' equity  | 94,485                            |          |   | 101,591            |          |                           |
| Total liabilities and stockholders' equity                                    | \$ 526,172                        |          |   | \$ 474,686         |          |                           |
| Net interest-earning assets   | \$ 83,971                         |          |   | \$ 100,020         |          |                           |
| Tax equivalent net interest income/interest rate spread (3)                   |                                   | 7,659    | 2.79%   |                    | 7,272    | 2.56%                     |
| Tax equivalent net interest income as a percentage of interest-earning assets |                                   |          | 3.19%   |                    |          | 3.29%                     |

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|  |          |          |
|--|----------|----------|
| Ratio of interest-earning assets to interest-bearing liabilities | 121.01%  | 129.00%  |
| Less: tax equivalent adjustment (1)                              | (74)     | (78)     |
| Net interest income as reported on statement of operations       | \$ 7,585 | \$ 7,194 |

- (1) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%. The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the statement of operations. See Explanation of Use of Non-GAAP Financial Measurements .
- (2) Money market accounts include mortgagors' escrow deposits.
- (3) Tax equivalent interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

**Table of Contents**

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's tax equivalent interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

|  | <b>Six Months Ended June 30,<br/>2009 compared to 2008</b> |                        |            |
|--|--|------------------------|------------|
|  | <b>Increase (Decrease)</b>                                 |                        |            |
|  | <b>Volume</b>  | <b>Due to<br/>Rate</b> | <b>Net</b> |
|  | <b>(In Thousands)</b>                                      |                        |            |
| <b>Interest-earning assets:</b>                |  |                        |            |
| Investment securities (1)                      | \$ 178   | \$ (465)               | \$ (287)   |
| <b>Loans:</b>                                  |  |                        |            |
| Residential real estate loans                  | 80   | (84)                   | (4)        |
| Commercial real estate loans                   | 586  | (479)                  | 107        |
| Consumer loans                                 | 162  | (194)                  | (32)       |
| Commercial loans                               | 382  | (539)                  | (157)      |
| Total loans                                    | 1,210  | (1,296)                | (86)       |
| Other  | 127  | (292)                  | (165)      |
| Total interest-earning assets                  | \$ 1,515   | \$ (2,053)             | \$ (538)   |
| <b>Interest-bearing liabilities:</b>           |  |                        |            |
| <b>Deposits:</b>                               |  |                        |            |
| Money market accounts                          | \$ 228   | \$ (409)               | \$ (181)   |
| Savings accounts (2)                           | 10   | (73)                   | (63)       |
| NOW, ATS, and other transaction accounts       | 4  | (7)                    | (3)        |
| Certificates of deposit                        | 63   | (1,011)                | (948)      |
| Total deposits                                 | 305  | (1,500)                | (1,195)    |
| FHLB advances                                  | 513  | (175)                  | 338        |
| Securities sold under agreement to repurchase  | 25   | (91)                   | (66)       |
| Other borrowings                               |  | (2)                    | (2)        |
| Total interest-bearing borrowings              | 538  | (268)                  | 270        |
| Total interest-bearing liabilities             | 843  | (1,768)                | (925)      |
| Increase (decrease) in net interest income (3) | \$ 672   | \$ (285)               | \$ 387     |

(1) The changes in state and municipal income are reflected on a tax equivalent basis using a tax rate of 41%.

(2) Includes interest on mortgagors' escrow deposits.

(3) The changes in net interest income are reflected on a tax equivalent basis and thus do not correspond to the statement of income.

**Table of Contents**

Net interest income, on a tax equivalent basis, increased \$387,000, or 5.3%, to \$7.7 million for the six months ended June 30, 2009 compared to \$7.3 million for the same period in 2008, mainly driven by a reduction in the cost of liabilities in excess of the reduction in the yield of assets. Net interest margin declined 10 basis points to 3.19% for the six months ended June 30, 2009 from the comparable period in 2008 primarily due to the decreasing interest rate environment.

Total interest and dividend income, on a tax equivalent basis, declined \$538,000, or 4.2%, to \$12.3 million for the six months ended June 30, 2009 compared to \$12.8 million for the same period last year. Average interest-earning assets totaled \$483.6 million for the six months ended June 30, 2009 compared to \$444.9 million for the same period last year, an increase of \$38.7 million, or 8.7%. Average loans increased \$27.5 million, or 7.0%, primarily due to strong originations activity. Average investment securities increased \$5.4 million, or 12.2%, but average investment security interest income declined by \$287,000 due to falling interest rates. The yield on average interest-earning assets declined 67 basis points to 5.12% for the six months ended June 30, 2009, principally as a result of lower market rates of interest. In addition, a portion of the Company's existing interest-sensitive assets repriced to lower rates.

Total interest expense decreased \$925,000, or 16.7%, to \$4.6 million for the six months ended June 30, 2009 from \$5.5 million for the same period in 2008, resulting primarily from decreased rates paid on average interest-bearing liabilities. Rates paid on average interest-bearing liabilities decreased 90 basis points to 2.33% for the six months ended June 30, 2009, largely reflecting lower market interest rates. The lower interest rate environment led to a decrease in rates paid for new deposits and borrowings as well as the repricing of a portion of the Company's outstanding deposits. Average interest-bearing liabilities rose \$54.7 million, or 15.9%, to \$399.6 million for the six months ended June 30, 2009 from \$344.9 million for the comparable period in 2008, reflecting growth in interest-bearing deposits and borrowings.

***Provision for Loan Losses***

The provision for loan losses decreased \$107,000 to \$165,000 in the six months ended June 30, 2009 from \$272,000 for the same period in 2008 primarily due to the decrease in total loans outstanding and the decrease in nonperforming loans.

***Non-interest Income***

Total non-interest income increased \$275,000, or 24.9%, to \$1.4 million for the six months ended June 30, 2009 compared to \$1.1 million for the same period in 2008, primarily due to the increase in income from loan sales of \$443,000, partially offset by the decrease in income from sales of available-for-sale securities of \$88,000.

***Non-interest Expenses***

Non-interest expenses increased \$1.4 million, or 18.9%, to \$9.0 million for the six months ended June 30, 2009 compared to \$7.6 million in the same period in 2008. The increase is primarily attributable to a special FDIC insurance assessment of \$229,000 and other-than-temporary impairment charge of \$106,000. The increase is also attributable to the increase in occupancy and furniture and equipment expenses of \$418,000 for the six months ended June 30, 2009, reflecting the bank's expansion that included two additional branch locations.

***Income Taxes***

The Company's income tax expense decreased \$281,000, or 214.5%, to a tax benefit of \$150,000 for the six months ended June 30, 2009 compared to a tax expense of \$131,000 for the same period in 2008. The Company's combined federal and state effective tax rate was (71.8%), reflecting the net loss for the six months ended June 30, 2009, compared to 29.2% for the same period in 2008.

**Table of Contents****Explanation of Use of Non-GAAP Financial Measurements**

We believe that it is common practice in the banking industry to present interest income and related yield information on tax exempt securities on a tax-equivalent basis and that such information is useful to investors because it facilitates comparisons among financial institutions. However, the adjustment of interest income and yields on tax exempt securities to a tax equivalent amount may be considered to include financial information that is not in compliance with U.S. generally accepted accounting principles (GAAP). A reconciliation from GAAP to non-GAAP is provided below.

|  | Three Months Ended<br>June 30, |               |                        |               | Six Months Ended<br>June 30, |               |          |               |
|--|--------------------------------|---------------|------------------------|---------------|------------------------------|---------------|----------|---------------|
|  | 2009                           |               | 2008                   |               | 2009                         |               | 2008     |               |
|  |                                |               | (Dollars in Thousands) |               |                              |               |          |               |
|  | Interest                       | Average Yield | Interest               | Average Yield | Interest                     | Average Yield | Interest | Average Yield |
| Investment securities (no tax adjustment)    | \$ 203                         |               | \$ 347                 | 1.65%         | \$ 380                       |               | \$ 663   | 1.55%         |
| Tax equivalent adjustment (1)                | 37                             |               | 39                     |               | 74                           |               | 78       |               |
| Investment securities (tax equivalent basis) | \$ 240                         |               | \$ 386                 | 1.95%         | \$ 454                       |               | \$ 741   | 1.86%         |
| Net interest income (no tax adjustment)      | \$ 3,854                       |               | \$ 3,701               |               | \$ 7,585                     |               | \$ 7,194 |               |
| Tax equivalent adjustment (1)                | 37                             |               | 39                     |               | 74                           |               | 78       |               |
| Net interest income (tax equivalent basis)   | \$ 3,891                       |               | \$ 3,740               |               | \$ 7,659                     |               | \$ 7,272 |               |
| Interest rate spread (no tax adjustment)     |                                |               |                        | 2.77%         |                              |               |          | 2.76%         |
| Net interest margin (no tax adjustment)      |                                |               |                        | 3.18%         |                              |               |          | 3.16%         |

(1) The tax equivalent adjustment is based on a combined federal and state tax rate of 41% for all periods presented.

**Liquidity Management**

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, borrowings from the Federal Home Loan Bank of Boston and securities sold under agreements to repurchase. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that, in turn, affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual loan repayment activity. Our short-term investments are primarily comprised of U.S. Treasury and government agencies, which we use primarily for the collateral purposes for sweep accounts maintained by commercial customers. The balance of these investments fluctuates as the aggregate balance of our sweep accounts fluctuates.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating,

## **Table of Contents**

financing, lending and investing activities during any given period. At June 30, 2009, cash and cash equivalents net of reserve requirements totaled \$48.3 million. Agencies and U.S. Treasury securities net of pledged securities totaled \$7.7 million. Collateralized mortgage obligations totaled \$6.3 million. Total securities classified as available-for-sale were \$5.4 million at June 30, 2009. At June 30, 2009, we had the ability to borrow a total of approximately \$105.5 million from the Federal Home Loan Bank of Boston. On June 30, 2009, we had \$55.7 million of borrowings outstanding. In addition, we had the following available lines of credit: a \$4.9 million credit line with the FHLB, a \$2.0 million borrowing line with the Depositors Insurance Fund, and \$3.0 million unsecured line of credit with Bankers Bank, N.E.

Certificates of deposit due within one year of June 30, 2009 totaled \$126.1 million, or 60.3%, of our certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before June 30, 2010. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

## **Capital Management**

We are subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2009, the Bank exceeded all of its regulatory capital requirements. The Bank is considered well capitalized under regulatory guidelines. The Company is subject to the Federal Reserve Board's capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the Federal Deposit Insurance Corporation. The Company exceeded these requirements at June 30, 2009.

The Company's and Bank's actual capital amounts and ratios as of June 30, 2009 and December 31, 2008 are presented in the table below.



**Table of Contents**

|  | Actual    |       | Minimum for Capital Adequacy Purposes |       | Minimum to be Well Capitalized Under Prompt Corrective Action Provisions |       |
|--|-----------|-------|---------------------------------------|-------|--|-------|
|  | Amount    | Ratio | Amount                                | Ratio | Amount   | Ratio |
| <b>As of June 30, 2009:</b>            |           |       |                                       |       |  |       |
| Total Capital to Risk Weighted Assets  |           |       |                                       |       |  |       |
| Company                                | \$ 99,047 | 24.0% | \$ 33,061                             | 8.0%  | N/A  | N/A   |
| Bank                                   | \$ 83,525 | 20.3% | \$ 32,944                             | 8.0%  | \$ 41,180  | 10.0% |
| Tier 1 Capital to Risk Weighted Assets |           |       |                                       |       |  |       |
| Company                                | \$ 95,572 | 23.1% | \$ 16,531                             | 4.0%  | N/A  | N/A   |
| Bank                                   | \$ 80,050 | 19.4% | \$ 16,472                             | 4.0%  | \$ 24,708  | 6.0%  |
| Tier 1 Capital to Average Assets       |           |       |                                       |       |  |       |
| Company                                | \$ 95,572 | 18.1% | \$ 21,070                             | 4.0%  | N/A  | N/A   |
| Bank                                   | \$ 80,050 | 15.2% | \$ 21,012                             | 4.0%  | \$ 26,265  | 5.0%  |
| <b>As of December 31, 2008:</b>        |           |       |                                       |       |  |       |
| Total Capital to Risk Weighted Assets  |           |       |                                       |       |  |       |
| Company                                | \$ 98,762 | 23.6% | \$ 33,492                             | 8.0%  | N/A  | N/A   |
| Bank                                   | \$ 82,546 | 19.8% | \$ 33,340                             | 8.0%  | \$ 41,675  | 10.0% |
| Tier 1 Capital to Risk Weighted Assets |           |       |                                       |       |  |       |
| Company                                | \$ 95,429 | 22.8% | \$ 16,746                             | 4.0%  | N/A  | N/A   |
| Bank                                   | \$ 79,213 | 19.0% | \$ 16,670                             | 4.0%  | \$ 25,005  | 6.0%  |
| Tier 1 Capital to Average Assets       |           |       |                                       |       |  |       |
| Company                                | \$ 95,429 | 18.3% | \$ 20,808                             | 4.0%  | N/A  | N/A   |
| Bank                                   | \$ 79,213 | 15.3% | \$ 20,733                             | 4.0%  | \$ 25,916  | 5.0%  |

**Off-Balance Sheet Arrangements**

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. We currently have no plans to engage in hedging activities in the future.

**Credit-related financial instruments**

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and various financial instruments with off-balance-sheet risk. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

**Table of Contents**

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

|   | June 30,<br>2009 | December 31,<br>2008 |
|---|------------------|----------------------|
| Commitments to grant loans                  | \$ 38,615        | \$ 16,614            |
| Unfunded commitments for construction loans | 10,299           | 12,837               |
| Unfunded commitments under lines of credit  | 45,913           | 44,610               |
| Standby letters of credit                   | 2,458            | 2,456                |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, usually do not contain a specified maturity date, and may not be drawn upon to the total extent to which the Company is committed.

FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others; an Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34, requires certain disclosures and liability recognition for the fair value at issuance of guarantees that fall within its scope. The Company does not issue any guarantees that would require liability recognition or disclosure under FIN 45, other than its standby letters of credit. The Company has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled \$2,458 and \$2,456 at June 30, 2009 and December 31, 2008, respectively, and represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of 12 months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. The Company's policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios are generally consistent with loan-to-value requirements for other commercial loans secured by similar types of collateral. The fair value of the Company's standby letters of credit at June 30, 2009 and December 31, 2008 was insignificant.

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**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

**Qualitative Aspects of Market Risk**

We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration; increasing our focus on shorter-term, adjustable-rate commercial and multi-family lending; selling fixed-rate mortgage loans; and periodically selling available-for-sale securities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, which includes members of management, to communicate, coordinate and control all aspects involving asset/liability management. The committee reports to the Board of Directors of the Bank quarterly and establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

**Quantitative Aspects of Market Risk**

We analyze our interest rate sensitivity to manage the risk associated with interest rate movements through the use of interest income simulation. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest sensitive. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations are completed monthly and presented to the Asset/Liability Committee and Board of Directors of the Bank. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. The numerous assumptions used in the simulation process are reviewed by the Asset/Liability Committee and the Board of Directors of the Bank on a quarterly basis. Changes to these assumptions can significantly affect the results of the simulation. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management's current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of our interest rate risk exposure at a particular point in time. We continually review the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next 12 month period using interest income simulation. The simulation uses projected repricing of assets and liabilities at June 30, 2009 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that, in turn, affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe such assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate future mortgage-backed security and loan repayment activity.

**Table of Contents**

The following table reflects changes in estimated net interest income for the Bank at June 30, 2009 through June 30, 2010.

| Increase (Decrease) in Market Interest Rates (Rate Shock) | \$ Amount<br>(Dollars In Thousands) | Net Interest Income<br>\$ Change | % Change |
|---|-------------------------------------|----------------------------------|----------|
| 300 bp  | \$ 16,082                           | \$ 1,637                         | 11.3%    |
| 200   | \$ 15,655                           | \$ 1,210                         | 8.4%     |
| 100   | \$ 14,981                           | \$ 536                           | 3.7%     |
|   | \$ 14,445                           |                                  |          |
| (100)   | \$ 13,862                           | (\$ 583)                         | -4.0%    |
| (200)   | \$ 13,049                           | (\$ 1,396)                       | -9.7%    |

The basis point changes in rates in the above table are assumed to occur evenly over the following 12 months.

**Item 4. Controls and Procedures**

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the financial condition and results of operations of the Company.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. At June 30, 2009, the risk factors for the Company have not changed materially from those reported in our Annual Report on Form 10-K. However, the risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(a) Unregistered Sales of Equity Securities Not applicable

(b) Use of Proceeds Not applicable

(c) Repurchase of Our Equity Securities

On August 8, 2008, the Company announced that its Board of Directors authorized a third stock repurchase program (the Third Stock Repurchase Program) for the purchase of up to 335,000 shares of the Company's common stock, or approximately 5% of its outstanding common stock. The repurchase of up to 200,000 shares under the Third Stock Repurchase Program will be conducted solely through a Rule 10b5-1 repurchase plan with Sterne, Agee & Leach, Inc. The remaining shares will be repurchased through a Rule 10b5-1 repurchase plan with Stifel, Nicolaus & Company, Inc. Repurchased shares will be held in treasury. This plan will continue until it is completed or terminated by the Board of Directors. Repurchases made in the second quarter of 2009 were as follows:

| Period             | (a)<br>Total Number<br>of Shares<br>(or Units)<br>Purchased | (b)<br>Average Price<br>Paid Per<br>Share<br>(or Unit) | (c)<br>Total Number of<br>Shares<br>(or Units)<br>Purchased as Part<br>of Publicly<br>Announced Plans<br>or Programs | (d)<br>Maximum Number<br>(or Approximate<br>Dollar Value) of<br>Shares (or Units) that<br>May Yet Be<br>Purchased Under the<br>Plans or Programs |
|--------------------|---|--|--|--|
| April 1 - 30, 2009 | 1,000   | \$ 11.30   | 255,177  | 79,823   |
| May 1 - 31, 2009   | 1,100   | 12.84  | 256,277  | 78,723   |
| June 1 - 30, 2009  | 15,400  | 13.02  | 271,677  | 63,323   |

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|       |        |    |       |         |
|-------|--------|----|-------|---------|
| Total | 17,500 | \$ | 12.91 | 271,677 |
|-------|--------|----|-------|---------|

40

**Table of Contents****Item 3. Defaults Upon Senior Securities.**

None.

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

a. An annual meeting to shareholders of the Company was held on May 27, 2009 (the Annual Meeting ).

b. Not applicable.

c. The items voted upon at the Annual Meeting and the vote for each proposal were as follows:

1. Election of directors.

| <b>Election of Directors:</b> | <b>For</b> | <b>Withheld</b> |
|-------------------------------|------------|-----------------|
| Thomas J. Bardon              | 5,488,838  | 126,980         |
| James H. Bugbee               | 5,499,304  | 116,464         |
| Louis E. Dupuis               | 5,488,995  | 126,823         |
| Douglas K. Engebretson        | 5,501,366  | 114,452         |
| Gary G. Fitzgerald            | 5,486,525  | 129,293         |
| Paul C. Picknelly             | 5,490,467  | 125,351         |

2. The ratification of the appointment of Berry, Dunn, McNeil & Parker as independent registered public accounting firm of the Company for the fiscal year ending December 31, 2009.

| <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------|----------------|----------------|
| 5,585,725  | 25,455         | 4,635          |

**Table of Contents**

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

- 3.1 Articles of Incorporation of Chicopee Bancorp, Inc. (1)
- 3.2 Bylaws of Chicopee Bancorp, Inc. (2)
- 4.0 Stock Certificate of Chicopee Bancorp, Inc. (1)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.0 Section 1350 Certification

- (1) Incorporated herein by reference to the Exhibits to the Company's Registration Statement on Form S-1 (File No. 333-132512), as amended, initially filed with the Securities and Exchange Commission on March 17, 2006.
- (2) Incorporated herein by reference to Exhibit 3.2 to the Company's 8-K (File No. 000-51996) filed with the Securities and Exchange Commission on August 1, 2007.



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHICOPEE BANCORP, INC.

Dated: July 30, 2009

By: /s/ William J. Wagner  
William J. Wagner  
Chairman of the Board, President and  
Chief Executive Officer  
(principal executive officer)

Dated: July 30, 2009

By: /s/ W. Guy Ormsby  
W. Guy Ormsby  
Executive Vice President,  
Chief Financial Officer and Treasurer  
(principal financial and chief accounting officer)