

CHICOPEE BANCORP, INC.

Form 10-Q

May 12, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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 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 April 30, 2008, there were 6,867,400 shares of the Registrant's Common Stock outstanding.

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FORM 10-Q

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

	March 31, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and due from banks	\$ 6,827	\$ 5,226
Short-term investments	10,163	9,229
Federal funds sold	16,706	9,066
Total cash and cash equivalents	33,696	23,521
Securities available-for-sale, at fair value	7,330	7,864
Securities held-to-maturity, at cost (fair value \$29,498 and \$27,069 at March 31, 2008 and December 31, 2007, respectively)	29,512	27,324
Federal Home Loan Bank stock, at cost	1,942	1,583
Loans, net of allowance for loan losses (\$3,073 at March 31, 2008 and \$3,076 at December 31, 2007)	385,400	379,868
Cash surrender value of life insurance	11,793	11,675
Premises and equipment, net	7,179	7,033
Accrued interest and dividend receivable	1,571	1,752
Deferred income tax asset	2,055	1,911
Other assets	813	925
Total assets	\$ 481,291	\$ 463,456
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing	\$ 35,432	\$ 27,167
Interest-bearing	296,680	297,804
Total deposits	332,112	324,971
Securities sold under agreements to repurchase	19,351	14,179
Advances from Federal Home Loan Bank	27,098	17,774
Mortgagors' escrow accounts	1,435	1,103
Accrued expenses and other liabilities	796	1,130
Total liabilities	380,792	359,157
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at March 31, 2008 and December 31, 2007)	72,479	72,479
Treasury stock, at cost (471,968 shares at March 31, 2008 and 155,000 shares at December 31, 2007)	(6,226)	(2,108)
Additional paid-in-capital	692	573

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Unearned compensation (restricted stock awards)	(3,736)	(3,940)
Unearned compensation (Employee Stock Ownership Plan)	(5,282)	(5,356)
Retained earnings	42,605	42,417
Accumulated other comprehensive income (loss)	(33)	234
Total stockholders' equity	100,499	104,299
Total liabilities and stockholders' equity	\$ 481,291	\$ 463,456

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2008	2007
Interest and dividend income:		
Loans, including fees	\$ 5,868	\$ 5,727
Interest and dividends on securities	316	460
Other interest-earning assets	138	188
Total interest and dividend income	6,322	6,375
Interest expense:		
Deposits	2,647	2,628
Securities sold under agreements to repurchase	90	72
Other borrowed funds	159	147
Total interest expense	2,896	2,847
Net interest income	3,426	3,528
Provision for loan losses	10	101
Net interest income, after provision for loan losses	3,416	3,427
Non-interest income:		
Service charges, fees and commissions	544	429
Loan sales and servicing, net of amortization	(6)	(2)
Net gain on sales of securities available-for-sale	15	296
Total non-interest income	553	723
Non-interest expenses:		
Salaries and employee benefits	2,221	1,819
Occupancy expenses	289	291
Furniture and equipment	233	229
Data processing	205	183
Stationery, supplies and postage	97	93
Other non-interest expense	652	675
Total non-interest expenses	3,697	3,290
Income before income taxes	272	860
Income tax expense	84	305
Net income	\$ 188	\$ 555

Earnings per share:

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Basic	\$	0.03	\$	0.08
Diluted	\$	0.03	\$	0.08

Adjusted weighted average shares outstanding:

Basic	6,317,296	6,881,194
Diluted	6,330,306	6,881,194

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****Three Months Ended March 31, 2007 and 2008****(Dollars In Thousands)****(Unaudited)**

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (ESOP)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2007	\$ 72,479	\$ (2,108)	\$ 573	\$ (3,940)	\$ (5,356)	\$ 42,417	\$ 234	\$ 104,299
Comprehensive loss:								
Net income						188		188
Change in net unrealized gain on securities available-for-sale, net of tax							(267)	(267)
Total comprehensive loss								(79)
Treasury stock purchased (316,968 shares)		(4,118)						(4,118)
Change in unearned compensation			119	204	74			397
Balance at March 31, 2008	\$ 72,479	\$ (6,226)	\$ 692	\$ (3,736)	\$ (5,282)	\$ 42,605	\$ (33)	\$ 100,499
Balance at December 31, 2006	\$ 72,479	\$	\$ 144	\$	\$ (5,654)	\$ 40,817	\$ 660	\$ 108,446
Comprehensive income:								
Net income						555		555
Change in net unrealized gain on securities available-for-sale, net of tax							(215)	(215)
Total comprehensive income								340
Change in unearned compensation			40		74			114
Balance at March 31, 2007	\$ 72,479	\$	\$ 184	\$	\$ (5,580)	\$ 41,372	\$ 445	\$ 108,900

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2008 2007 (In thousands)	
Cash flows from operating activities:		
Net income	\$ 188	\$ 555
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	168	157
Provision for loan losses	10	101
Increase in cash surrender value of life insurance	(117)	(96)
Realized gains on investment securities, net	(15)	(296)
Realized losses on disposal of property and equipment		4
Decrease in other assets	109	151
Decrease in accrued interest receivable	181	151
Increase (decrease) in other liabilities	(334)	180
Change in unearned compensation	397	114
Net cash provided by operating activities	587	1,021
Cash flows from investing activities:		
Additions to premises and equipment	(327)	(17)
Loan originations and principal collections, net	(5,541)	4,032
Proceeds from sales of securities available-for-sale	1,230	965
Purchases of securities available-for-sale	(1,451)	(598)
Purchases of securities held-to-maturity	(48,540)	(25,817)
Maturities of securities held-to-maturity	46,365	27,034
Net cash provided (used) by investing activities	(8,264)	5,599
Cash flows from financing activities:		
Net increase in deposits	7,143	14,737
Net increase (decrease) in securities sold under agreements to repurchase	5,172	(1,004)
Proceeds from long-term FHLB advances	15,000	
Payments on long-term FHLB advances	(677)	(496)
Net decrease in other short-term borrowings	(5,000)	
Stock purchased for treasury	(4,118)	
Net increase in escrow funds held	332	376
Net cash provided by financing activities	17,852	13,613
Net increase in cash and cash equivalents	10,175	20,233
Cash and cash equivalents at beginning of period	23,521	11,528
Cash and cash equivalents at end of period	\$ 33,696	\$ 31,761
Supplemental cash flow information:		
Interest paid on deposits	\$ 2,647	\$ 2,628

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Interest paid on borrowings	249	219
Income taxes paid	175	15
See accompanying notes to unaudited consolidated financial statements.		

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Three Months Ended March 31, 2008 and 2007

1. Basis of Presentation

Chicopee Bancorp, Inc. (the Corporation) has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the Bank) and Chicopee Funding Corporation (collectively, the Company). The Corporation was formed on March 14, 2006 by the Bank to become the holding company for the Bank upon completion of the Bank'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 March 31, 2008 and for the three-month periods ended March 31, 2008 and 2007 included herein are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial condition, results of operations, changes in stockholders' equity and cash flows, as of and for the periods covered herein, have been made. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto for the year ended December 31, 2007 included in the Company's Annual Report on Form 10-K.

The results for the three-month interim periods covered hereby are not necessarily indicative of the operating results for a full year.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the 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. On July 26, 2007, the Company granted stock options and stock awards under the Company's 2007 Equity Incentive Plan. The total number of stock options available for grant under the plan is 743,936, of which 693,267 were granted, and the total number of stock awards granted under the plan is 297,574.

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Earnings per share is computed as follows:

	Three Months Ended March 31,	
	2008	2007
Net income (in thousands)	\$ 188	\$ 555
Weighted average number of common shares issued	7,439,368	7,439,368
Less: average number of treasury shares	(288,863)	
Less: average number of unallocated ESOP shares	(535,635)	(558,174)
Less: average number of nonvested restricted stock awards	(297,574)	
Adjusted weighted average number of common shares outstanding	6,317,296	6,881,194
Plus: dilutive nonvested restricted stock awards	13,010	
Weighted average number of diluted shares outstanding	6,330,306	6,881,194
Net income per share:		
Basic	\$ 0.03	\$ 0.08
Diluted	\$ 0.03	\$ 0.08

There were 666,667 stock options that were not included in the diluted earnings per share for the three months ended March 31, 2008 because their effect is 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 vesting period is five years from 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.

A summary of options under the Plan as of March 31, 2008, and changes during the three months then ended, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	693,267	\$ 14.29	9.50	
Granted				
Exercised				
Forfeited or expired	26,600	14.29	9.33	
Outstanding at March 31, 2008	666,667	\$ 14.29	9.25	\$
Exercisable at March 31, 2008		\$		\$

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For the three months ended March 31, 2008, share based compensation expense applicable to the plan was \$100,000 and the related tax benefit was \$34,000. No options have vested as of March 31, 2008 and no options were granted prior to July 1, 2007. As of March 31, 2008, unrecognized stock-based compensation expense related to nonvested options amounted to \$2.3 million. This amount is expected to be recognized over a period of 4.25 years.

Stock Awards

Under the Company's 2007 Equity Incentive Plan, the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year. 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 Company recorded compensation cost related to stock awards of approximately \$204,000 and \$71,000 of related tax benefit in the three months ended March 31, 2008. No stock awards have vested as of March 31, 2008 and no stock awards were granted prior to July 1, 2007. As of March 31, 2008, unrecognized stock-based compensation expense related to nonvested restricted stock awards is expected to be recognized over a period of 4.25 years.

A summary of the status of the Company's stock awards as of March 31, 2008, and changes during the three months ended March 31, 2008, is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested Shares		
Balance at December 31, 2007	297,574	\$ 14.29
Granted		
Vested		
Forfeited	4,136	14.29
Balance at March 31, 2008	293,438	\$ 14.29

4. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 established a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement became effective January 1, 2008. This Statement does not require any new fair value measurements. The Company implemented SFAS No. 157 on January 1, 2008 with no material effect on the financial condition and results of operations of the Company.

In December 2007, FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. SFAS No. 160 amended ARS 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Management does not expect the application of this Statement will have a material effect on the financial statements of the Company.

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In March 2008, FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133. SFAS No. 161 is intended to enhance the current disclosure framework in SFAS No. 133. This Statement has the same scope as SFAS No. 133. SFAS No. 133 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. SFAS No. 161 better conveys the purpose of derivative use in terms of the risk that the entity is intending to manage, disclosing the fair values of the derivative instruments and their gains and losses in a tabular format, as well as disclosing information about credit-risk-related contingent features. The Company does not hold derivative instruments as of March 31, 2008. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management does not expect implementation of SFAS No. 161 to have a material impact on the financial statements of the Company.

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 income, but the cumulative effect of such items from period-to-period is reflected as a separate component of the equity section of the statement of financial condition (accumulated other comprehensive income 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:

	Three Months Ended March 31,	
	2008	2007
	(Dollars In Thousands)	
Net income	\$ 188	\$ 555
Other comprehensive loss, net of tax:		
Unrealized holding losses on available-for-sale securities arising during the period	(395)	(35)
Reclassification adjustment for gain on sale of available-for-sale securities included in net income	(15)	(296)
Tax effect	143	116
Other comprehensive loss, net of tax	(267)	(215)
Total comprehensive income (loss)	\$ (79)	\$ 340

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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 March 31, 2008, the Bank had an accrued liability of \$781,000, which will be equitably distributed upon receipt of a favorable determination letter from the Internal Revenue Service to all eligible employees who were active when the plan terminated.

The components of the net periodic benefit cost are:

	Three Months Ended March 31,	
	2008	2007
	(Dollars In Thousands)	
Service cost	\$	\$ 89
Interest cost	51	90
Amortization of transition obligation		
Expected return on assets	(51)	(91)
Recognized net actuarial loss		8
Net periodic benefit cost	\$	\$ 96
Weighted-average discount rate assumption used to determine benefit obligation	4.79%	5.75%
Weighted-average discount rate assumption used to determine net benefit cost	4.79%	5.75%

7. Fair Values of Assets and Liabilities

Effective January 1, 2008, the Company adopted SFAS No. 157, 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, other 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.

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

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	March 31, 2008	(Dollars In Thousands)		
Assets				
Securities available-for-sale	\$ 7,330	\$ 7,330	\$	\$
Total assets	\$ 7,330	\$ 7,330	\$	\$

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

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 as of March 31, 2008.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	March 31, 2008	(Dollars In Thousands)		
Assets				
Impaired loans	\$ 190	\$	\$ 190	\$
Total assets	\$ 190	\$	\$ 190	\$

In accordance with the provisions for SFAS No. 114, a valuation reserve of \$100,000 as of March 31, 2008 and December 31, 2007 was included in the allowance for loan losses, for the above impaired loans. The amount of loans represents the carrying value and related write-downs of impaired loans for which adjustments are based on the appraised value of the collateral which is based on the market approach of valuation.

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

The following analysis discusses changes in the financial condition and results of operations of the Company at and for the three months ended March 31, 2008 and 2007, 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 2007 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 March 31, 2008, we operated out of our main office and six offices in Chicopee, West Springfield and Ludlow, Massachusetts.

Comparison of Financial Condition at March 31, 2008 and December 31, 2007

The Company's assets grew \$17.8 million, or 3.8%, to \$481.3 million at March 31, 2008 as compared to \$463.5 million at December 31, 2007, primarily as a result of an increase in federal funds sold of \$7.6 million, loans of \$5.5 million as well as securities held-to-maturity of \$2.2 million. The increase in federal funds sold was primarily due to an increase in deposits of \$7.1 million partially offset by the loan growth. Total net loans increased to \$385.4 million from \$379.9 million as of December 31, 2007, with one-to-four family loans increasing \$3.2 million, or 2.0%, and commercial loans increasing \$1.6 million, or 3.5%.

The balance sheet expansion was funded by increases in advances from the Federal Home Loan Bank of \$9.3 million, deposits of \$7.1 million as well as securities sold under agreements to repurchase of \$5.2 million. Core deposits, which exclude certificates of deposit, increased \$11.2 million, or 9.6%, to \$128.2 million at March 31, 2008 from \$117.0 million at December 31, 2007 as a result of successful business development efforts. Certificates of deposit balances decreased \$4.1 million, or 2.0%, to \$204.0 million at March 31, 2008 due to the decreasing rate environment.

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Total stockholders' equity decreased \$3.8 million, or 3.6%, to \$100.5 million at March 31, 2008 from December 31, 2007, resulting mainly from the purchase of 316,968 shares of the Company's common stock through the Company's stock repurchase program, at a cost of \$4.1 million. Partially offsetting the decrease was net income during the period.

Lending Activities

At March 31, 2008, the Company's net loan portfolio was \$385.4 million, or 80.1% of total assets. The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the respective portfolio at the dates indicated.

	March 31, 2008		December 31, 2007	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)			
Real estate loans:				
One- to four-family	\$ 157,452	40.6%	\$ 154,299	40.4%
Multi-family	11,519	3.0%	11,674	3.0%
Commercial	103,815	26.8%	103,051	27.0%
Construction	40,033	10.3%	40,394	10.6%
Total real estate loans	312,819	80.7%	309,418	81.0%
Consumer loans:				
Home equity	7,305	1.9%	6,882	1.8%
Second mortgages	16,217	4.2%	15,938	4.2%
Other	3,798	1.0%	3,995	1.0%
Total consumer loans	27,320	7.1%	26,815	7.0%
Commercial loans	47,417	12.2%	45,815	12.0%
Total loans	387,556	100.0%	382,048	100.0%
Undisbursed portion of loans in process				
Net deferred loan origination costs	917		896	
Allowance for loan losses	(3,073)		(3,076)	
Loans, net	\$ 385,400		\$ 379,868	

The Company's net loan portfolio increased \$5.5 million, or 1.5%, during the first three months of 2008 primarily due to increases in residential real estate lending.

Table of Contents**Non-performing Assets**

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

	March 31, 2008	December 31, 2007
	(Dollars In Thousands)	
Nonaccrual loans:		
Real estate mortgage	\$ 1,172	\$ 779
Construction		167
Commercial	164	63
Consumer	24	5
Total	1,360	1,014
Real estate owned, net		
Total nonperforming assets	\$ 1,360	\$ 1,014
Total nonperforming loans as a percentage of total loans (1) (2)	0.35%	0.27%
Total nonperforming assets as a percentage of total assets (2)	0.28%	0.22%

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

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

Nonaccrual loans increased \$346,000 or 34.1% to \$1.4 million as of March 31, 2008 compared to \$1.0 million as of December 31, 2007. The increase was primarily due to one residential real estate loan. Management believes that the value of the property based on a recent appraisal will be sufficient to cover the principal balance of the loan.

Allowance for Loan Losses

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

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

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

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

	At or for the Three Months Ended March 31, 2008 2007 (Dollars In Thousands)	
Allowance for loan losses, beginning of period	\$ 3,076	\$ 2,908
Charged-off loans:		
Real estate		
Commercial		
Consumer	15	14
Total charged-off loans	15	14
Recoveries on loans previously charged-off:		
Real estate		
Commercial		
Consumer	2	
Total recoveries	2	
Net loan charge-offs	13	14
Provision for loan losses	10	101
Allowance for loan losses, end of period	\$ 3,073	\$ 2,995
Net loan charge-offs to average loans, net	0.01%	0.02%
Allowance for loan losses to total loans (1)	0.79%	0.82%
Allowance for loan losses to nonperforming loans (2)	225.96%	252.10%
Recoveries to charge-offs	13.33%	

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

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

Table of Contents**Investment Activities**

At March 31, 2008, the Company's investment securities portfolio amounted to \$36.8 million, or 7.7% of assets. The following table sets forth at the dates indicated information regarding the amortized cost and market values of the Company's investment securities.

	March 31, 2008		December 31, 2007	
	Amortized Cost	Fair Value (In Thousands)	Amortized Cost	Fair Value
Securities available-for-sale:				
Marketable equity securities	\$ 7,381	\$ 7,330	\$ 7,504	\$ 7,864
Total equity securities	7,381	7,330	7,504	7,864
Securities held-to-maturity:				
Debt securities of U.S. government sponsored enterprises	18,689	18,689	16,496	16,500
Corporate and industrial revenue bonds	4,303	4,303	4,303	4,303
Collateralized mortgage obligations	6,520	6,506	6,525	6,266
Total securities held-to-maturity	29,512	29,498	27,324	27,069
Total	\$ 36,893	\$ 36,828	\$ 34,828	\$ 34,933

(1) Does not include investments in FHLB-Boston stock totaling \$1.9 million at March 31, 2008 and \$1.6 million at December 31, 2007. Fair market value of securities available-for-sale decreased \$534,000, or 6.8%, to \$7.3 million at March 31, 2008 primarily due to market conditions. Held-to-maturity securities increased \$2.2 million or 8.0% to \$29.5 million due to purchases of held-to-maturity securities.

Deposits

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

	March 31, 2008		December 31, 2007	
	Balance	Percent of Total Deposits (Dollars In Thousands)	Balance	Percent of Total Deposits
Demand deposits	\$ 35,432	10.67%	\$ 27,167	8.36%
NOW accounts	14,282	4.30%	14,628	4.50%
Passbook accounts	40,334	12.15%	39,630	12.19%
Money market deposit accounts	38,109	11.47%	35,542	10.94%
Certificates of deposit	203,955	61.41%	208,004	64.01%
Total deposits	\$ 332,112	100.00%	\$ 324,971	100.00%

Deposits grew \$7.1 million, or 2.2%, to \$332.1 million at March 31, 2008 from \$325.0 million at December 31, 2007. The growth in demand deposit, passbook and money market deposit accounts reflects the success of sales and marketing efforts. Certificates of deposit balances also decreased \$4.1 million, or 2.0%, to \$204.0 million at March 31, 2008 largely due to the decreasing rate environment.

Table of Contents**Borrowings**

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

	March 31, 2008	December 31, 2007
	(Dollars In Thousands)	
Maximum amount of advances outstanding at any month-end during the period:		
FHLB Advances	27,098	17,774
Securities sold under agreements to repurchase	21,050	17,937
Other borrowings	50	100
Average advances outstanding during the period:		
FHLB Advances	17,751	14,515
Securities sold under agreements to repurchase	17,055	13,240
Other borrowings	45	77
Weighted average interest rate during the period:		
FHLB Advances	3.60%	3.90%
Securities sold under agreements to repurchase	2.00%	2.60%
Other borrowings	7.70%	7.00%
Balance outstanding at end of period:		
FHLB Advances	27,098	17,774
Securities sold under agreements to repurchase	19,351	14,179
Other borrowings	41	54
Weighted average interest rate at end of period:		
FHLB Advances	3.03%	4.03%
Securities sold under agreements to repurchase	1.07%	2.50%
Other borrowings	7.00%	7.00%

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 March 31, 2008 and 2007**General**

Net income decreased \$367,000, to \$188,000 for the quarter ended March 31, 2008 compared to \$555,000 for the same quarter last year. The decrease in net income for the first quarter of 2008 was primarily as a result of an increase in salaries and employee benefits expense relating to expenses associated with the 2007 Equity Incentive Plan, the narrowing of the net interest margin and a decrease in the sales of securities available-for-sale.

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.

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	For the Three Months Ended March 31,					
	2008			2007		
	Average Balance	Interest	Average Yield/ Rate (Dollars In Thousands)	Average Balance	Interest	Average Yield/ Rate
Interest-earning assets:						
Investment securities (1)	\$ 37,721	\$ 355	3.79%	\$ 42,792	\$ 474	4.49%
Loans:						
Residential real estate loans	168,837	2,421	5.77%	159,561	2,203	5.60%
Commercial real estate loans	141,042	2,291	6.53%	141,129	2,305	6.62%
Consumer loans	26,976	426	6.35%	24,961	416	6.76%
Commercial loans	45,859	730	6.40%	43,281	803	7.52%
Loans, net	382,714	5,868	6.17%	368,932	5,727	6.30%
Other	14,498	138	3.83%	13,912	186	5.42%
Total interest-earning assets	434,933	6,361	5.88%	425,636	6,387	6.09%
Noninterest-earning assets	26,488			27,798		
Total assets	\$ 461,421			\$ 453,434		
Interest-bearing liabilities:						
Deposits:						
Money market accounts	\$ 36,864	\$ 243	2.65%	\$ 38,655	\$ 228	2.39%
Savings accounts (2)	40,480	76	0.76%	45,864	120	1.06%
NOW accounts	14,224	15	0.42%	16,057	13	0.33%
Certificates of deposit	204,353	2,313	4.55%	195,362	2,267	4.71%
Total interest-bearing deposits	295,921	2,647	3.60%	295,938	2,628	3.60%
FHLB advances	17,751	158	3.58%	15,136	145	3.89%
Securities sold under agreement to repurchase	17,055	90	2.12%	10,856	72	2.69%
Other borrowings	45	1	7.68%	96	2	8.45%
Total interest-bearing borrowings	34,851	249	2.87%	26,088	219	3.40%
Total interest-bearing liabilities	330,772	2,896	3.52%	322,026	2,847	3.59%
Demand deposits	26,686			21,852		
Other noninterest-bearing liabilities	704			401		
Total liabilities	358,162			344,279		
Total stockholders' equity	103,259			109,155		
Total liabilities and stockholders' equity	\$ 461,421			\$ 453,434		
Net interest-earning assets	\$ 104,161			\$ 103,610		
Tax equivalent net interest income/interest rate spread (3)		3,465	2.36%		3,540	2.50%
Tax equivalent net interest income as a percentage of interest-earning assets (4)			3.20%			3.37%
Ratio of interest-earning assets to interest-bearing liabilities			131.49%			132.17%

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Less: tax equivalent adjustment (1)	(39)	(12)
Net interest income as reported on statement of operations	\$ 3,426	\$ 3,528

- (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 income.
- (2) Savings accounts include mortgagors' escrow deposits.
- (3) Tax equivalent net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Tax equivalent net interest margin represents tax equivalent net interest income divided by total average interest-earning assets.

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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.

	Three Months Ended March 31, 2008 compared to 2007		
	Volume	Rate	Net
	(In Thousands)		
Interest-earning assets:			
Investment securities (1)	\$ (51)	\$ (69)	\$ (120)
Loans:			
Residential real estate loans	144	74	218
Commercial real estate loans		(14)	(14)
Consumer loans	35	(25)	10
Commercial loans	49	(122)	(73)
Total loans	228	(87)	141
Other	8	(56)	(48)
Total interest-earning assets	\$ 185	\$ (212)	\$ (27)
Interest-bearing liabilities:			
Deposits:			
Money market accounts	\$ (11)	\$ 26	\$ 15
Savings accounts (2)	(13)	(31)	(44)
NOW accounts	(2)	4	2
Certificates of deposit	115	(69)	46
Total deposits	89	(70)	19
FHLB advances	25	(12)	13
Securities sold under agreement to repurchase	35	(17)	18
Other borrowings	(1)		(1)
Total interest-bearing borrowings	59	(29)	30
Total interest-bearing liabilities	148	(99)	49
Increase (decrease) in net interest income (3)	\$ 37	\$ (113)	\$ (76)

(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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Net interest income decreased \$102,000, or 2.9%, to \$3.4 million for the three months ended March 31, 2008 compared to \$3.5 million for the same period in 2007, mainly driven by growth in average interest-bearing liabilities. Net interest margin decreased 17 basis points to 3.20% for the three months ended March 31, 2008 from the comparable period in 2007 primarily due to a decrease in the yield on assets of 21 basis points resulting from the decreasing rate environment. The decrease was partially offset by the decrease of 7 basis points in the cost of funds.

Interest and dividend income, on a tax equivalent basis, declined \$26,000, or 0.4%, to \$6.4 million for the three months ended March 31, 2008 compared to \$6.4 million for the same period last year, largely reflecting growth in average interest-earning assets. Average interest-earning assets totaled \$434.9 million for the three months ended March 31, 2008 compared to \$425.6 million for the same period last year, an increase of \$9.3 million, or 2.2%. Average loans increased \$13.9 million, or 3.7%, primarily due to strong originations. Average investment securities declined \$5.1 million, or 11.9%, principally reflecting maturities of agencies. The yield on average interest-earning assets decreased 21 basis points to 5.88% for the three months ended March 31, 2008, principally as a result of lower market rates of interest. The lower interest rate environment led to an increase in the levels of loan prepayment and refinancing volume.

Total interest expense increased \$49,000, or 1.7%, to \$2.9 million for the three months ended March 31, 2008 from \$2.8 million for the same period in 2007, resulting primarily from increased average interest-bearing liabilities. Average interest-bearing liabilities increased \$8.7 million, or 2.7%, to \$330.8 million for the three months ended March 31, 2008 from \$322.0 million for the comparable period in 2007 reflecting an increase in interest-bearing borrowings and a slight decrease in deposits. Rates paid on average interest-bearing liabilities declined 7 basis points to 3.52% for the first quarter of 2008, 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 first quarter of 2008 was \$10,000 compared to \$101,000 for the same period in 2007. The decrease in provision for loan losses was due to a decrease in construction loans. In addition, management assessed the continued growth of the loan portfolio, particularly the increases in one-to-four family real estate loans and consumer loans which carry less risk than the commercial loan portfolio. The allowance for loan losses is maintained through provisions for loan losses.

Non-interest Income

Total non-interest income decreased \$170,000, or 23.5%, to \$553,000 for the first quarter of 2008 compared to \$723,000 for the same period in 2007. Fee income increased \$115,000, or 26.8%, to \$544,000 in the first quarter of 2008 from \$429,000 for the comparable period in 2007 reflecting an increase in deposit account transaction fee income. NOW account fees totaled \$164,000 for the three months ended March 31, 2008 compared to \$89,000 in the first quarter of 2007, an increase of \$75,000, or 84.6%, mainly resulting from new customers gained as a result of successful business development efforts. The gain on sales of available-for-sale securities decreased \$281,000 to \$15,000 due to market conditions.

Non-interest Expenses

Non-interest expenses increased \$407,000, or 12.4%, to \$3.7 million for the three months ended March 31, 2008 compared to \$3.3 million in the first quarter of 2007. The increase is primarily attributable to employee benefits expense which increased \$402,000, or 22.1%, to \$2.2 million for the first quarter of 2008 reflecting increased benefit costs associated with the Bank's ESOP and the Company's Equity Incentive Plan.

Income Taxes

The Company's income tax expense decreased \$221,000, or 72.5%, to \$84,000 for the first quarter of 2008 compared to \$305,000 in the first quarter of 2007. The Company's combined federal and state effective tax rate was 30.9%, down slightly from 35.5% for the same period in 2007.

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 March 31,			
	2008		2007	
	(Dollars in Thousands)			
	Interest	Average Yield	Interest	Average Yield
Investment securities (non-tax adjustment)	\$ 316	3.37%	\$ 462	4.38%
Tax equivalent adjustment (1)	39		12	
Investment securities (tax equivalent basis)	\$ 355	3.79%	\$ 474	4.49%
Net interest income (non-tax adjustment)	\$ 3,426		\$ 3,528	
Tax equivalent adjustment (1)	39		12	
Net interest income (tax equivalent basis)	\$ 3,465		\$ 3,540	
Interest rate spread (no tax adjustment)		2.33%		2.48%
Net interest margin (no tax adjustment)		3.17%		3.36%

(1) The tax equivalent adjustment is based on a combine 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.

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, financing, lending and investing activities during any given period. At March 31, 2008, cash and cash equivalents totaled \$33.7 million. Total securities classified as available-for-sale were \$7.3 million at March 31, 2008. In addition, at March 31, 2008, we had the ability to borrow a total of approximately \$111.8 million from the Federal Home Loan Bank of Boston. On March 31, 2008, we had \$27.1 million of borrowings outstanding.

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At March 31, 2008, we had \$51.2 million in loan commitments outstanding, which consisted of \$13.8 million of commercial loan commitments, \$9.6 million of mortgage loan commitments, \$15.3 million in unadvanced construction loan commitments, \$8.7 million in unused home equity lines of credit and \$3.8 million in commercial lines of credit. Certificates of deposit due within one year of March 31, 2008 totaled \$141.2 million, or 69.3%, 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 March 31, 2009. 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 March 31, 2008, 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 March 31, 2008.

The Company's and Bank's actual capital amounts and ratios as of March 31, 2008 and December 31, 2007 are presented in the table.

	Actual		Minimum for Capital		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars In Thousands)						
As of March 31, 2008						
Total Capital to Risk Weighted Assets						
Company	\$ 103,586	27.2%	\$ 36,912	8.0%	N/A	N/A
Bank	\$ 82,789	21.8%	\$ 30,376	8.0%	\$ 37,969	10.0%
Tier 1 Capital to Risk Weighted Assets						
Company	\$ 100,513	26.4%	\$ 15,241	4.0%	N/A	N/A
Bank	\$ 79,716	21.0%	\$ 15,188	4.0%	\$ 22,782	6.0%
Tier 1 Capital to Average Assets						
Company	\$ 100,513	21.8%	\$ 18,456	4.0%	N/A	N/A
Bank	\$ 79,716	17.3%	\$ 18,403	4.0%	\$ 23,003	5.0%

Table of Contents**As of December 31, 2007:**

Total Capital to Risk Weighted Assets

Company	\$ 107,281	28.6%	\$ 30,001	8.0%	N/A	N/A
Bank	\$ 82,391	22.0%	\$ 29,896	8.0%	\$ 37,369	10.0%

Tier 1 Capital to Risk Weighted Assets

Company	\$ 104,042	27.7%	\$ 15,000	4.0%	N/A	N/A
Bank	\$ 79,152	21.2%	\$ 14,948	4.0%	\$ 22,422	6.0%

Tier 1 Capital to Average Assets

Company	\$ 104,042	22.7%	\$ 18,305	4.0%	N/A	N/A
Bank	\$ 79,152	17.4%	\$ 18,220	4.0%	\$ 22,775	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.

For the three month periods ended March 31, 2008 and March 31, 2007, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

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.

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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 March 31, 2008 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.

The following table reflects changes in estimated net interest income for the Bank at March 31, 2008 through March 31, 2009.

Increase (Decrease) in Market interest Rates (Rate Shock)	Net Interest Income		
	\$ Amount (Dollars In Thousands)	\$ Change	% Change
300 bp	\$ 12,942	\$ (537)	-4.0%
200	\$ 13,184	\$ (295)	-2.2%
100	\$ 13,282	\$ (197)	-1.5%
	\$ 13,479		
(100)	\$ 13,557	\$ 78	0.6%
(200)	\$ 13,859	\$ 380	2.8%

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.

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There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2007, which could materially affect our business, financial condition or future results. At March 31, 2008, 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 16, 2007, the Company announced that its Board of Directors authorized a stock repurchase program (the First Stock Repurchase Program) for the purchase of up to 371,968 shares of the Company's common stock or approximately 5% of its outstanding common stock. The First Stock Repurchase Program was completed on February 27, 2008.

On March 4, 2008, the Company announced that its Board of Directors authorized a second stock repurchase program (the Second Stock Repurchase Program) for the purchase of up to 353,370 shares of the Company's common stock or approximately 5% of its outstanding common stock. Repurchases under the Second Stock Repurchase Program will be conducted solely through a Rule 10b5-1 repurchase plan with Stifel, Nicolaus & Company, Incorporated, based upon parameters of a Rule 10b5-1 repurchase plan. 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 first quarter of 2008 were as follows:

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Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 - 31, 2008		\$		216,968
February 1 - 29, 2008	216,968	12.94	216,968	
March 1 - 31, 2008	100,000	13.10	100,000	253,370
Total	316,968	\$ 12.99	316,968	

Item 3. Defaults Upon Senior Securities.

None.

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

None.

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.

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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: May 8, 2008

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

Dated: May 8, 2008

By: /s/ W. Guy Ormsby
W. Guy Ormsby
Executive Vice President,
Chief Financial Officer and Treasurer

(principal financial and chief accounting officer)