

CHICOPEE BANCORP, INC.
Form 10-Q
November 04, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from _____ to _____

Commission File Number: 000-51996

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

Massachusetts 20-4840562
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

70 Center Street, Chicopee, Massachusetts 01013
(Address of principal executive offices) (Zip Code)
(413) 594-6692
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of November 2, 2015, there were 5,210,739 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars In Thousands)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$17,145	\$8,794
Federal funds sold	4,352	2,915
Interest-bearing deposits with the Federal Reserve Bank of Boston	28,069	38,060
Total cash and cash equivalents	49,566	49,769
Securities available for sale, at fair value	405	414
Securities held to maturity, at cost (fair value of \$33,588 at September 30, 2015 and \$34,229 at December 31, 2014)	32,784	33,747
Federal Home Loan Bank stock, at cost	4,764	3,914
Loans, net of allowance for loan losses of \$5,511 at September 30, 2015 and \$4,927 at December 31, 2014	576,019	519,757
Loans held for sale	377	—
Other real estate owned	1,174	1,050
Mortgage servicing rights	206	269
Bank owned life insurance	14,794	14,531
Premises and equipment, net	8,655	8,855
Accrued interest and dividends receivable	1,765	1,591
Deferred income tax asset	3,686	3,683
Other assets	1,216	1,642
Total assets	\$695,411	\$639,222
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	\$120,727	\$97,922
NOW accounts	43,143	42,177
Savings accounts	53,211	50,716
Money market deposit accounts	118,546	121,106
Certificates of deposit	182,140	171,637
Total deposits	517,767	483,558
Federal Home Loan Bank of Boston advances	88,433	67,039
Accrued expenses and other liabilities	713	491
Total liabilities	606,913	551,088
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued; 5,210,739 and 5,270,670 shares outstanding at September 30, 2015 and December 31, 2014, respectively)	72,479	72,479
	(30,113) (29,119
))

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Treasury stock, at cost (2,228,629 and 2,168,698 shares at September 30, 2015 and December 31, 2014, respectively)

Additional paid-in-capital	3,819	3,595
Unearned compensation (restricted stock awards)	(3) (7
Unearned compensation (Employee Stock Ownership Plan)	(3,050) (3,273
Retained earnings	45,342	44,430
Accumulated other comprehensive income	24	29
Total stockholders' equity	88,498	88,134
Total liabilities and stockholders' equity	\$695,411	\$639,222

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Loans, including fees	\$6,029	\$5,539	\$17,510	\$16,115
Interest and dividends on securities	394	390	1,147	1,204
Interest on other interest-earning assets	10	5	48	23
Total interest and dividend income	6,433	5,934	18,705	17,342
Interest expense:				
Deposits	679	670	2,094	2,089
Federal Home Loan Bank of Boston advances	347	243	927	672
Total interest expense	1,026	913	3,021	2,761
Net interest income	5,407	5,021	15,684	14,581
Provision for loan losses	137	227	743	5,202
Net interest income, after provision for loan losses	5,270	4,794	14,941	9,379
Non-interest income:				
Service charges, fees and commissions	727	744	1,826	1,806
Net loan sales and servicing	70	58	186	167
Net gain on sales of available-for-sale securities	—	—	—	34
Net gain (loss) on sale of other real estate owned	—	6	—	(3
Other real estate owned writedowns	(6) —	(6) (72
Increase in cash surrender value of bank owned life insurance	88	91	263	268
Total non-interest income	879	899	2,269	2,200
Non-interest expenses:				
Salaries and employee benefits	2,537	2,492	7,644	7,481
Occupancy expenses	357	371	1,201	1,181
Furniture and equipment	182	182	531	534
FDIC insurance and assessment	104	116	345	307
Data processing services	404	339	1,150	1,045
Professional fees	178	271	558	628
Advertising expense	140	140	429	473
Stationery, supplies and postage	71	65	203	193
Foreclosure expense	157	139	410	385
Other non-interest expense	670	622	1,973	1,823
Total non-interest expenses	4,800	4,737	14,444	14,050
Income (loss) before income taxes	1,349	956	2,766	(2,471
Income tax expense (benefit)	379	434	740	(1,595
Net income (loss)	\$970	\$522	\$2,026	\$(876

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Earnings (loss) per share:

Basic	\$0.20	\$0.10	\$0.41	\$(0.17))
Diluted	\$0.19	\$0.10	\$0.40	\$(0.17))

Adjusted weighted average shares outstanding:

Basic	4,911,822	5,002,195	4,932,469	5,050,019
Diluted	4,985,792	5,056,621	5,005,590	5,130,282

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,	
	2015	2014
Net income	\$970	\$522
Other comprehensive income (loss), net of tax		
Unrealized holding gains (losses) arising during period on investment securities available-for-sale	6	(23)
Tax effect	(3)	8
Total other comprehensive income (loss), net of tax	3	(15)
Total comprehensive income	\$973	\$507
	Nine Months Ended September 30,	
	2015	2014
Net income (loss)	\$2,026	\$(876)
Other comprehensive loss, net of tax		
Unrealized holding losses arising during period on available-for-sale securities	(8)	(32)
Reclassification adjustment for gains realized in net income (1)	—	(34)
Tax effect	3	23
Total other comprehensive loss, net of tax	(5)	(43)
Total comprehensive income (loss)	\$2,021	\$(919)

(1) Reclassified into the consolidated statements of operations in net gain on sales of available-for-sale securities.

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2015 and 2014
(Dollars In Thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2013	\$72,479	\$(26,435)	\$3,299	\$ (12)	\$ (3,571)	\$46,418	\$ 52	\$92,230
Comprehensive loss:								
Net loss	—	—	—	—	—	(876)	—	(876)
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of \$23)	—	—	—	—	—	—	(43)	(43)
Total comprehensive loss								(919)
Treasury stock purchased (134,915 shares)	—	(2,210)	—	—	—	—	—	(2,210)
Stock options exercised (9,700 shares)	—	178	(37)	—	—	—	—	141
Stock option expense	—	—	90	—	—	—	—	90
Change in unearned compensation:								
Restricted stock award expense	—	—	—	4	—	—	—	4
Common stock held by ESOP committed to be released	—	—	153	—	223	—	—	376
Cash dividends declared (\$0.21 per share)	—	—	—	—	—	(1,088)	—	(1,088)
Balance at September 30, 2014	\$72,479	\$(28,467)	\$3,505	\$ (8)	\$ (3,348)	\$44,454	\$ 9	\$88,624
Balance at December 31, 2014	\$72,479	\$(29,119)	\$3,595	\$ (7)	\$ (3,273)	\$44,430	\$ 29	\$88,134
Comprehensive income:								
Net income	—	—	—	—	—	2,026	—	2,026
	—	—	—	—	—	—	(5)	(5)

Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of \$3)								
Total comprehensive income								2,021
Stock option expense	—	—	81	—	—	—	—	81
Treasury stock purchased	—	(1,007)	—	—	—	—	—	(1,007)
Stock options exercised (800 shares)	—	13	(2)	—	—	—	—	11
Change in unearned compensation:								
Restricted stock award expense	—	—	—	4	—	—	—	4
Common stock held by ESOP committed to be released	—	—	145	—	223	—	—	368
Cash dividends declared (\$0.22 per share)	—	—	—	—	—	(1,114)	—	(1,114)
Balance at September 30, 2015	\$72,479	\$(30,113)	\$3,819	\$ (3)	\$(3,050)	\$45,342	\$ 24	\$88,498

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
	(In Thousands)	
Cash flows from operating activities:		
Net income (loss)	\$2,026	\$(876)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	534	525
Provision for loan losses	743	5,202
Increase in cash surrender value of bank owned life insurance	(263)	(268)
Net realized gain on sales of securities available for sale	—	(34)
Change in mortgage servicing rights	63	77
Net loss on other real estate owned	6	75
Loans originated for sale	(3,740)	(4,288)
Proceeds from loan sales	3,397	4,408
Realized gains on sales of mortgage loans	(34)	(50)
Decrease (increase) in other assets	426	(1,427)
(Increase) decrease in accrued interest and dividends receivable	(173)	5
Increase (decrease) in other liabilities	222	(205)
Change in unearned compensation	372	380
Stock option expense	81	90
Net cash provided by operating activities	3,660	3,614
Cash flows from investing activities:		
Purchase of premises and equipment	(333)	(295)
Loan originations, net of principal payments	(57,321)	(30,461)
Proceeds from sales of other real estate owned	185	376
Proceeds from sales of securities available-for-sale	—	187
Maturities of held-to-maturity securities	—	13,373
Proceeds from principal paydowns of held-to-maturity securities	962	934
Purchase of Federal Home Loan Bank stock	(850)	—
Net cash used by investing activities	(57,357)	(15,886)
Cash flows from financing activities:		
Net increase in deposits	34,210	20,882
Proceeds from long-term FHLB advances	38,100	29,500
Repayments of long-term FHLB advances	(16,706)	(8,485)
Treasury stock purchased	(1,007)	(2,210)
Cash dividends paid on common stock	(1,114)	(1,088)
Stock options exercised	11	141
Net cash provided by financing activities	53,494	38,740
Net (decrease) increase in cash and cash equivalents	(203)	26,468
Cash and cash equivalents at beginning of period	49,769	18,915
Cash and cash equivalents at end of period	\$49,566	\$45,383

Supplemental cash flow information:

Interest paid on deposits	\$2,094	\$2,089
Interest paid on borrowings	894	654
Income taxes paid	314	17
Transfers from loans to other real estate owned	316	1,166

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
September 30, 2015 and 2014

1. Basis of Presentation

Chicopee Bancorp, Inc. (the “Corporation”) has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the “Bank”) and Chicopee Funding Corporation (collectively, the “Company”). The Corporation was formed on March 14, 2006 and became the holding company for the Bank upon completion of the Bank’s conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include its wholly-owned subsidiaries and a 99% owned subsidiary. The consolidated financial statements of the Company as of September 30, 2015 and for the periods ended September 30, 2015 and 2014 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, 2014 included in the Company’s Annual Report on Form 10-K.

The results for the nine months ended September 30, 2015 are not necessarily indicative of the operating results for a full year.

2. Earnings (Loss) Per Share

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

Earnings (loss) per share have been computed based on the following:

(\$ in thousands, except share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$970	\$522	\$2,026	\$(876)
Average number of shares issued	7,439,368	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(2,199,814)	(2,079,284)	(2,179,067)	(2,031,360)
Less: average number of unallocated ESOP shares	(327,332)	(357,089)	(327,332)	(357,089)
Less: average number of dilutive restricted stock awards	(400)	(800)	(500)	(900)
Adjusted weighted average number of common shares outstanding	4,911,822	5,002,195	4,932,469	5,050,019
Plus: dilutive outstanding restricted stock awards	206	247	220	292
Plus: dilutive outstanding stock options	73,764	54,179	72,901	79,971
Weighted average number of diluted shares outstanding	4,985,792	5,056,621	5,005,590	5,130,282

Net income (loss) per share:

Basic-common stock	\$0.20	\$0.10	\$0.41	\$(0.17))
Basic-unvested share-based payment awards	\$0.20	\$0.10	\$0.41	\$(0.17))
Diluted-common stock	\$0.19	\$0.10	\$0.40	\$(0.17))
Diluted-unvested share-based payment awards	\$0.19	\$0.10	\$0.40	\$(0.17))

There were 87,000 stock options that were not included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2015 because the effect was anti-dilutive. There were 97,000 stock options that were not included

in the calculation of diluted earnings per share for the three months ended September 30, 2014 because the effect was anti-dilutive. Given the loss for the nine months ended September 30, 2014, diluted loss per share did not differ from basic loss per share as all potential shares were anti-dilutive.

3. Equity Incentive Plan

Stock Options

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

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during the nine month periods ended September 30, 2015 or 2014.

A summary of options under the Plan as of September 30, 2015, and changes during the nine months ended September 30, 2015, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2014	653,098	\$ 14.57	3.83	\$ 1,894
Exercised	(800)	14.00	6.44	—
Forfeited or expired	(6,200)	16.06	7.15	—
Outstanding at September 30, 2015	646,098	\$ 14.55	3.04	\$ 1,005
Exercisable at September 30, 2015	570,097	\$ 14.39	2.51	\$ 961
Exercisable at September 30, 2014	539,397	\$ 14.33	3.28	\$ 358

The weighted-average grant-date fair value of the options outstanding and exercisable at September 30, 2015 was \$3.81 and \$3.85, respectively. For the nine months ended September 30, 2015, share based compensation expense applicable to options granted under the Plan was \$81,000. For the nine months ended September 30, 2014, share based compensation expense applicable to options granted under the Plan was \$90,000. As of September 30, 2015, unrecognized stock-based compensation expense related to non-vested options amounted to \$188,000. This amount is expected to be recognized over a period of 1.94 years.

Stock Awards

The Plan provides that 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 September 30, 2015 is \$14.08. The Company recorded compensation cost related to stock awards of approximately \$4,000 for each of the nine month periods ended September 30, 2015 and 2014. There were no stock awards granted prior to July 1, 2007. There were no stock awards granted by the Company during the nine months ended September 30, 2015 and 2014. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of \$14.08. As of September 30, 2015, unrecognized stock-based compensation expense related to non-vested restricted stock awards amounted to \$3,000. This amount is expected to be recognized over a period of 0.44 years.

A summary of the status of the Company's stock awards as of September 30, 2015, and changes during the nine months ended September 30, 2015, is as follows:

Nonvested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2014	800	\$ 14.08
Vested	400	14.08
Outstanding at September 30, 2015	400	\$ 14.08

4. Long-term Incentive Plan

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

A total of 150,000 phantom stock units are available for awards under the Phantom Stock Plan. The only awards that may be granted under the Phantom Stock Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company's stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. Unless the Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Phantom Stock Plan for the nine months ended September 30, 2015 and 2014, was \$20,000 and \$14,000, respectively. There were no phantom stock units granted during the nine months ended September 30, 2015. There were 4,074 phantom stock units granted during the nine months ended September 30, 2014. As of September 30, 2015 and December 31, 2014, 7,016 phantom stock units were outstanding.

5. Recent Accounting Pronouncements (Applicable to the Company)

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Management has applied this ASU and it did not have a material effect on the Company's consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard. The effective date of this ASU was deferred to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the potential impact of the ASU on its consolidated financial statements.

In June 2014, FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU was issued to respond to concerns about current accounting and disclosures for repurchase agreements and similar transactions. The concern was that under current accounting guidance there is an unnecessary distinction between the accounting for different types of repurchase agreements. Under current guidance, the repurchase-to-maturity transactions are accounted for as sales with forward agreements, whereas repurchase agreements that settle before the maturity of the transferred financial asset are accounted for as secured borrowings. The ASU amendments require new disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secure borrowings. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The ASU did not have a material effect on the Company's consolidated financial statements.

In June 2014, FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The ASU was issued because current U.S. generally accepted accounting principles ("GAAP") does not contain explicit guidance on how to account for share-based payments when a performance target could be achieved after the requisite service period. The ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The ASU will not have a material effect on the Company's consolidated financial statements.

6. Investment Securities

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

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	\$369	\$36	\$—	\$405
Total available-for-sale securities	\$369	\$36	\$—	\$405