

CENTURY BANCORP INC

Form 10-Q

November 09, 2006

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2006.**

**or**

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

**For the transition period from \_\_\_\_\_.**

**Commission file number 0-15752  
CENTURY BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**COMMONWEALTH OF MASSACHUSETTS**

**04-2498617**

(State or other jurisdiction of incorporation or organization)

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

**400 MYSTIC AVENUE, MEDFORD, MA**

**02155**

(Address of principal executive offices)

(Zip Code)

**(781) 391-4000**

(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 and 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 October 31, 2006, the Registrant had outstanding:

**Class A Common Stock, \$1.00 par value**  
**Class B Common Stock, \$1.00 par value**

**3,498,738 Shares**  
**2,042,450 Shares**

Century Bancorp, Inc.

	Index	Page Number
<u>Part I</u>	<u>Financial Information</u>	
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	
	<u>Consolidated Balance Sheets:</u> <u>September 30, 2006 and December 31, 2005</u>	3
	<u>Consolidated Statements of Income:</u> <u>Three (3) months and Nine (9) months ended September 30, 2006</u> <u>and 2005.</u>	4
	<u>Consolidated Statements of Changes in Stockholders</u> <u>Equity: Nine (9) months ended September 30, 2006</u> <u>and 2005.</u>	5
	<u>Consolidated Statements of Cash Flows:</u> <u>Nine (9) months ended September 30, 2006 and 2005</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7-12
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial</u> <u>Condition and Results of Operations</u>	12-21
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure About</u> <u>Market Risk</u>	21
<u>Item 4.</u>	<u>Controls and Procedures</u>	21
<u>Part II.</u>	<u>Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	22
<u>Item 1A.</u>	<u>Risk Factors</u>	22
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	22
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Securities Holders</u>	22
<u>Item 5.</u>	<u>Other Information</u>	22
<u>Item 6.</u>	<u>Exhibits</u>	22
<u>Signatures</u>		23
Exhibits		
<u>Ex-31.1 Section 302 Certification of Barry R. Sloane</u>		
<u>Ex-31.2 Section 302 Certification of Jonathan G. Sloane</u>		
<u>Ex-31.3 Section 302 Certification of Paul V. Cusick, Jr.</u>		

Ex-32.1 Section 906 Certification of Barry R. Sloane

Ex-32.2 Section 906 Certification of Jonathan G. Sloane

Ex-32.3 Section 906 Certification of Paul V. Cusick, Jr.

**Table of Contents**

## PART I Item 1

## Century Bancorp, Inc. Consolidated Balance Sheets (unaudited)

(000 s, except share data)	September 30, 2006	December 31, 2005
Assets		
Cash and due from banks	\$ 54,151	\$ 47,626
Federal funds sold and interest-bearing deposits in other banks	42,209	105,053
Total cash and cash equivalents	96,360	152,679
Securities available-for-sale, amortized cost \$470,471 and \$546,524, respectively	460,264	532,982
Securities held-to-maturity, market value \$262,397 and \$277,769, respectively	270,306	286,578
Loans, net:		
Commercial & industrial	107,094	94,139
Construction & land development	58,973	58,846
Commercial real estate	308,412	302,279
Residential real estate	163,500	146,355
Consumer & other	14,188	11,316
Home equity	69,397	76,710
Total loans, net	721,564	689,645
Less: allowance for loan losses	9,784	9,340
Net loans	711,780	680,305
Bank premises and equipment	23,370	25,228
Accrued interest receivable	7,268	7,127
Goodwill	2,714	2,714
Core deposit intangible	2,156	2,447
Other assets	42,312	38,709
Total assets	\$ 1,616,530	\$ 1,728,769
Liabilities		
Deposits:		
Demand deposits	\$ 274,967	\$ 296,696
Savings and NOW deposits	277,218	239,326
Money market accounts	343,154	279,245
Time deposits	380,588	401,773
Total deposits	1,275,927	1,217,040

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

Securities sold under agreements to repurchase	63,930	50,010
Federal Home Loan Bank (FHLB) borrowings and other borrowed funds	114,280	304,722
Other liabilities	19,003	17,713
Subordinated debentures	36,083	36,083
<b>Total liabilities</b>	<b>1,509,223</b>	<b>1,625,568</b>
<b>Stockholders' equity</b>		
Class A common stock, \$1.00 par value per share; authorized 10,000,000 shares; issued 3,498,638 shares and 3,453,202 shares, respectively	3,499	3,453
Class B common stock, \$1.00 par value per share; authorized 5,000,000 shares; issued 2,042,450 shares and 2,082,240 shares, respectively	2,042	2,082
Additional paid-in capital	11,504	11,416
Retained earnings	99,313	97,338
	116,358	114,289
Unrealized losses on securities available-for-sale, net of taxes	(6,233)	(8,270)
Additional minimum pension liability, net of taxes	(2,818)	(2,818)
<b>Total accumulated other comprehensive loss, net of taxes</b>	<b>(9,051)</b>	<b>(11,088)</b>
<b>Total stockholders' equity</b>	<b>107,307</b>	<b>103,201</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,616,530</b>	<b>\$ 1,728,769</b>

See accompanying Notes to unaudited Consolidated Financial Statements.

Page 3 of 23

---

**Table of Contents**

## Century Bancorp, Inc. Consolidated Statements of Income (unaudited)

(000 s except share data)	Three months ended September		Nine months ended September	
	2006	2005	2006	2005
Interest income				
Loans	\$ 13,290	\$ 10,616	\$ 38,137	\$ 29,900
Securities held-to-maturity	2,497	2,773	7,665	8,957
Securities available-for-sale	4,390	4,895	13,214	14,829
Federal funds sold and interest-bearing deposits in other banks	364	5	445	337
Total interest income	20,541	18,289	59,461	54,023
Interest expense				
Savings and NOW deposits	1,344	1,015	3,426	2,663
Money market accounts	2,711	1,886	6,850	5,366
Time deposits	4,157	2,174	11,069	6,169
Securities sold under agreements to repurchase	795	225	1,995	455
Other borrowed funds and subordinated debentures	2,163	3,215	8,346	8,692
Total interest expense	11,170	8,515	31,686	23,345
Net interest income	9,371	9,774	27,775	30,678
Provision for loan losses	225	150	600	450
Net interest income after provision for loan losses	9,146	9,624	27,175	30,228
Other operating income				
Service charges on deposit accounts	1,747	1,481	4,965	4,446
Lockbox fees	658	644	2,095	2,139
Brokerage commissions	42	106	120	398
Other income	282	471	1,449	1,303
Total other operating income	2,729	2,702	8,629	8,286
Operating expenses				
Salaries and employee benefits	5,843	6,064	18,092	18,118
Occupancy	1,020	874	2,986	2,803
Equipment	785	733	2,305	2,229
Other	2,408	2,396	6,963	7,067

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

Total operating expenses	10,056	10,067	30,346	30,217
Income before income taxes	1,819	2,259	5,458	8,297
Provision for income taxes	622	727	1,858	2,688
Net income	\$ 1,197	\$ 1,532	\$ 3,600	\$ 5,609

Share data:

Weighted average number of shares outstanding, basic	5,541,088	5,535,388	5,540,902	5,535,121
Weighted average number of shares outstanding, diluted	5,548,842	5,553,751	5,550,697	5,552,974
Net income per share, basic	\$ 0.22	\$ 0.28	\$ 0.65	\$ 1.01
Net income per share, diluted	\$ 0.22	\$ 0.28	\$ 0.65	\$ 1.01
Cash dividends paid:				
Class A common stock	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Class B common stock	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12

See accompanying Notes to unaudited Consolidated Financial Statements.

Page 4 of 23



**Table of Contents**

## Century Bancorp, Inc. Consolidated Statements of Changes in Stockholders Equity (unaudited)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings (000 s)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
2005						
Balance at December 31, 2004	\$ 3,434	\$ 2,099	\$ 11,395	\$ 92,611	(\$4,766)	\$ 104,773
Net income				5,609		5,609
Other comprehensive income, net of tax: Unrealized holding losses arising during period net of \$3,120 in taxes					(4,339)	(4,339)
Minimum pension liability adjustment					163	163
Comprehensive income						1,433
Stock Options Exercised, 1,354 shares	2		21			23
Cash dividends paid, Class A common stock, \$.36 per share				(1,236)		(1,236)
Cash dividends paid, Class B common stock, \$.18 per share				(379)		(379)
Balance at September 30, 2005	\$ 3,436	\$ 2,099	\$ 11,416	\$ 96,605	(\$8,942)	\$ 104,614
2006						
Balance at December 31, 2005	\$ 3,453	\$ 2,082	\$ 11,416	\$ 97,338	(\$11,088)	\$ 103,201
Net income				3,600		3,600

Other comprehensive income, net of tax: Unrealized holding gains arising during period net of \$1,465 in taxes					2,037	2,037
Comprehensive income						5,637
Conversion of Class B Common Stock to Class A Common Stock	40	(40)				0
Stock Options Exercised, 5,646 shares	6		88			94
Cash dividends paid, Class A common stock, \$.36 per share					(1,256)	(1,256)
Cash dividends paid, Class B common stock, \$.18 per share					(369)	(369)
Balance at September 30, 2006	\$ 3,499	\$ 2,042	\$ 11,504	\$ 99,313	(\$9,051)	\$ 107,307

See accompanying Notes to unaudited Consolidated Financial Statements.

Page 5 of 23

---

**Table of Contents**

## Century Bancorp, Inc. Consolidated Statements of Cash Flows (unaudited)

	Nine months ended September 30,	
	2006	2005
	(000 \$)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,600	\$ 5,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	450
Deferred income taxes	(676)	79
Net depreciation and amortization	2,752	2,434
Increase in accrued interest receivable	(141)	(316)
Increase in other assets	(4,271)	(4,937)
Increase in other liabilities	1,328	456
Net cash provided by operating activities	3,192	3,775
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities of securities available-for-sale	76,260	156,230
Purchase of securities available-for-sale	(448)	(112,235)
Proceeds from maturities of securities held-to-maturity	16,348	53,147
Purchase of securities held-to-maturity		(2,022)
Net increase in loans	(32,075)	(80,812)
Capital expenditures	(430)	(1,879)
Net cash provided by investing activities	59,655	12,429
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in time deposits	(21,185)	(117,515)
Net increase (decrease) in demand, savings, money market and NOW deposits	80,072	(204,979)
Net proceeds from the exercise of stock options	94	23
Cash dividends	(1,625)	(1,615)
Net increase in securities sold under agreements to repurchase	13,920	1,870
Net (decrease) increase in FHLB borrowings and other borrowed funds	(190,442)	142,745
Decrease in subordinated debentures		(29,639)
Net cash used in financing activities	(119,166)	(209,110)
Net decrease in cash and cash equivalents	(56,319)	(192,906)
Cash and cash equivalents at beginning of period	152,679	238,235
Cash and cash equivalents at end of period	\$ 96,360	\$ 45,329

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INF