

THIRD CENTURY BANCORP
Form 10QSB
August 14, 2007

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

FORM 10-QSB

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

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: 000-50828

THIRD CENTURY BANCORP

(Exact name of small business issuer as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

20-0857725
(I.R.S. Employer
Identification Number)

80 East Jefferson Street
Franklin, Indiana 46131
(Address of principal executive offices)

(317) 736-7151
(Issuer's telephone number)

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve 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 shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: July 31, 2007 – 1,583,599 common shares

Transitional Small Business Disclosure Format (Check one): Yes No

THIRD CENTURY BANCORP
FORM 10-QSB

INDEX

	<u>Page</u> <u>No.</u>
<u>PART I.</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	3
	3
<u>Consolidated Condensed Balance Sheets</u>	3
<u>Consolidated Condensed Statements of</u>	
<u>Income</u>	4
<u>Consolidated Condensed Statement of</u>	
<u>Stockholders' Equity</u>	5
<u>Consolidated Condensed Statements of</u>	
<u>Cash Flows</u>	6
<u>Notes to Unaudited Consolidated</u>	
<u>Condensed Financial Statements</u>	7
<u>Management's Discussion and Analysis</u>	
<u>or Plan of Operation</u>	9
<u>Item 2.</u>	
<u>Item 3.</u>	15
<u>Controls and Procedures</u>	
<u>PART II.</u>	
<u>OTHER INFORMATION</u>	15
<u>Item 1.</u>	15
<u>Legal Proceedings</u>	
<u>Unregistered Sales of Equity Securities</u>	
<u>and Use of Proceeds</u>	15
<u>Item 2.</u>	
<u>Item 3.</u>	15
<u>Defaults Upon Senior Securities</u>	
<u>Submission of Matters to a Vote of</u>	
<u>Security Holders</u>	16
<u>Item 4.</u>	
<u>Item 5.</u>	16
<u>Other Information</u>	
<u>Item 6.</u>	16
<u>Exhibits</u>	
<u>SIGNATURES</u>	17
<u>EXHIBIT INDEX</u>	E-1
<u>EXHIBITS</u>	

Index**PART I.****Item 1.****FINANCIAL INFORMATION****Financial Statements****THIRD CENTURY BANCORP**
Consolidated Condensed Balance Sheets

	As of June 30, 2007 (Unaudited)	As of December 31, 2006
(in thousands)		
Assets		
Cash and due from banks	\$ 520	\$ 620
Interest-earning demand deposits	9,492	8,872
Cash and cash equivalents	10,012	9,492
Held to maturity securities	7,807	5,209
Loans, net of allowance for loan losses of \$881 and \$936	111,268	111,937
Premises and equipment	4,265	4,328
Federal Home Loan Bank stock	1,255	1,255
Interest receivable	655	643
Other assets	658	639
Total assets	\$ 135,920	\$ 133,503
Liabilities		
Deposits		
Demand	\$ 10,272	\$ 9,590
Savings, NOW and money market	41,878	40,085
Time	39,343	38,893
Total deposits	91,493	88,568
Federal Home Loan Bank advances	24,600	24,600
Other liabilities	613	585
Total liabilities	116,706	113,753
Commitments and Contingencies	—	—
Equity Contributed by ESOP	383	324
Stockholders' Equity		
Preferred stock, without par value, authorized and unissued 2,000,000 shares	—	—
Common stock, without par value		
Authorized - 20,000,000 shares		
Issued and outstanding – 1,596,896 and 1,653,125 shares	13,096	13,685
Retained earnings	5,735	5,741
Total stockholders' equity	18,831	19,426
Total liabilities and stockholders' equity	\$ 135,920	\$ 133,503

See notes to consolidated condensed financial statements.

Index

THIRD CENTURY BANCORP
Consolidated Condensed Statements of Income
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(dollars in thousands, except share and per share amounts)			
Interest Income				
Loans receivable	\$ 1,905	\$ 1,814	\$ 3,796	\$ 3,496
Investment securities	84	79	142	171
Federal Home Loan Bank stock	18	13	31	27
Interest-earning deposits	129	33	221	80
Total interest income	2,136	1,939	4,190	3,774
Interest expense				
Deposits	687	519	1,341	999
Federal Home Loan Bank advances	287	224	571	384
Total interest expense	974	743	1,912	1,383
Net interest income	1,162	1,196	2,278	2,391
Provision for loan losses	15	15	30	30
Net interest income after provision for loan losses	1,147	1,181	2,248	2,361
Other income				
Service charges on deposit accounts	67	71	133	145
Other service charges and fees	84	87	151	157
Net gains on loan sales	24	26	37	45
Other income	57	69	102	127
Total other income	232	253	423	474
Other expenses				
Salaries and employee benefits	706	732	1,426	1,465
Net occupancy and equipment expenses	138	128	280	238
Data processing fees	100	105	203	210
Professional Services	52	27	90	53
ATM Expense	35	30	69	59
Other expenses	211	181	387	345
Total other expenses	1,242	1,203	2,455	2,370
Income before income tax	137	231	216	465
Income tax expense	64	93	103	184
Net income	\$ 73	\$ 138	\$ 113	\$ 281
Weighted average common shares - basic	1,457	1,475	1,469	1,473
Weighted average common shares- diluted	1,463	1,475	1,475	1,473
Earnings per share - basic	\$ 0.05	\$ 0.09	\$ 0.08	\$ 0.19

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Earnings per share - diluted	\$	0.05	\$	0.09	\$	0.08	\$	0.19
Dividends declared per share	\$	0.04	\$	0.04	\$	0.08	\$	0.08
Return of capital declared per share		--		--		--	\$	2.00

See notes to consolidated condensed financial statements.

Index

THIRD CENTURY BANCORP
 Consolidated Condensed Statement of Stockholders' Equity
 (Unaudited)
 (Dollar amounts in thousands)

	Common Stock		Retained Earnings	Total
	Shares Outstanding	Amount		
Balances, January 1, 2007	1,653,125	\$ 13,685	\$ 5,741	\$ 19,426
Net and comprehensive income	-	-	113	113
Repurchase of stock	(61,684)	(729)	-	(729)
Exercised options	5,455	60	-	60
RRP Shares Earned	-	80	-	80
Dividends paid (\$0.08 per share outstanding)	-	-	(119)	(119)
Balances, June 30, 2007	1,596,896	\$ 13,096	\$ 5,735	\$ 18,831

See notes to consolidated condensed financial statements.

Index

THIRD CENTURY BANCORP
Consolidated Condensed Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2007	2006
	(in thousands)	
Operating Activities		
Net income	\$ 113	\$ 281
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	30	30
Depreciation	106	92
Investment securities (accretion) amortization, net	(47)	(8)
Amortization of mortgage servicing rights	24	20
Gain on sale of loans	(37)	(45)
Loans originated for sale in the secondary market	(1,754)	(2,453)
Proceeds from sale of loans in the secondary market	1,791	2,498
RRP compensation expense	80	79
ESOP compensation expense	60	64
Net change in		
Interest receivable	(13)	(11)
Other assets	(18)	6
Other liabilities	27	(21)
Net cash provided by operating activities	362	532
Investing Activities		
Purchases of securities held to maturity	(5,204)	(1,400)
Proceeds from maturities of securities held to maturity	2,653	4,019
Proceeds from maturities of interest-bearing time deposits	–	200
Purchases of FHLB stock	–	(164)
Net changes in loans	614	(5,820)
Purchases of premises and equipment	(43)	(923)
Net cash used by investing activities	(1,980)	(4,088)
Financing Activities		
Net change in		
Demand and savings deposits	2,476	(1,830)
Certificate of deposits	450	(709)
Cash dividend on common stock	(119)	(125)
Return of capital dividend on common stock	–	(3,306)
Repurchase shares of common stock	(729)	–
Exercised stock options	60	–
Proceeds from FHLB advances	–	9,600
Payments on FHLB advances	–	(2,000)
Net cash provided by financing activities	2,138	1,630
Net Change in Cash and Equivalents	520	(1,926)
Cash and Cash Equivalents, Beginning of Period	9,492	7,853

Cash and Cash Equivalents, End of Period	\$ 10,012	\$ 5,927
Additional Cash Flows Information		
Interest paid	\$ 1,914	\$ 1,355
Income tax paid (net of refunds)	\$ 102	\$ 210

See notes to consolidated condensed financial statements.

Index

THIRD CENTURY BANCORP

Notes to Unaudited Consolidated Condensed Financial Statements

Third Century Bancorp (Third Century) is an Indiana corporation that was formed on March 15, 2004 for the purpose of owning all of the capital stock of Mutual Savings Bank (Mutual or Bank) following the completion of Mutual's mutual-to-stock conversion. Third Century offered for sale 1,653,125 shares of its common stock at \$10.00 per share in a public offering to eligible depositors that was completed on June 14, 2004. On June 29, 2004, Third Century purchased all of the capital stock issued by Mutual. Prior to that date, Third Century had no assets or liabilities.

The activities of Third Century are primarily limited to holding the stock of Mutual. Mutual conducts business primarily in Johnson County, southeast Marion County and surrounding counties. Mutual attracts deposits from the general public and originates loans for consumer, residential and commercial purposes. Mutual's profitability is significantly dependent on net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) and the interest expense paid on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest paid or received by Mutual can be significantly influenced by a number of factors, such as governmental monetary policy, competition within our market area and the performance of the national and local economies.

Mutual also owns one subsidiary, Mutual Financial Services, Inc. (Financial), which is engaged primarily in mortgage life insurance sales and servicing.

Note 1: Basis of Presentation

The accompanying unaudited consolidated condensed financial statements were prepared in accordance with instructions for Form 10-QSB and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Third Century for the fiscal year ended December 31, 2006 included in Third Century's Annual Report filed as an attachment to its Form 10-KSB. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair representation of the financial statements have been included. The results of operations for the six-month period ended June 30, 2007, are not necessarily indicative of the results which may be expected for the entire year.

The consolidated condensed balance sheet of Third Century as of December 31, 2006 has been derived from the audited consolidated balance sheet of Third Century as of that date.

Note 2: Change in Accounting Principle

Effective January 1, 2007, Third Century Bancorp adopted Statement of Financial Accounting Standards No. 156 (SFAS No. 156), *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits entities to elect either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of SFAS No. 140 for subsequent measurement. The Company elected to continue with the amortization and impairment requirements of SFAS No. 140, which will not have a material effect on our financial condition or results of operations.

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement

Index

attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition. As a result of the implementation of FIN 48, the Company did not identify any uncertain tax positions that it believes should be recognized in the financial statements.

The Company and its subsidiary file income tax returns in the U.S. federal and Indiana jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2003.

Note 3: Principles of Consolidation

The consolidated financial statements include the accounts of Third Century, Mutual and Financial. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

Note 4: Earnings Per Share

Earnings per share is computed based upon the weighted average common shares outstanding during the period. Unearned ESOP shares and unearned RRP shares are not considered outstanding for the earnings per share calculation. The following table presents the factors used in the earnings per share computation for the three and six months ending June 30, 2007 and June 30, 2006:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Basic:				
Net income	\$ 73	\$ 138	\$ 113	\$ 281
Weighted average common shares outstanding	1,457	1,475	1,469	1,473
Basic earnings per common share	\$ 0.05	\$ 0.09	\$ 0.08	\$ 0.19
Diluted:				
Net income	\$ 73	\$ 138	\$ 113	\$ 281
Weighted average common shares outstanding	1,457	1,475	1,469	1,473
Add: Dilutive effects of assumed exercises of stock options	6	-	6	-
Average shares and dilutive potential common shares	1,463	1,475	1,475	1,473
Diluted earnings per common share	\$ 0.05	\$ 0.09	\$ 0.08	\$ 0.19

Note 5: Effect of Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This

Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The

Index

Company is currently evaluating, and has not yet determined, the impact the new standard is expected to have on its financial position and results of operations.

In September 2006, the FASB Emerging Issues Task Force (EITF) finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4* (Accounting for Purchases of Life Insurance). This issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the issue discusses whether the cash surrender value should be discounted when the policyholder is contractually limited in its ability to surrender a policy. This issue is effective for fiscal years beginning after December 15, 2006. The Company does not expect that the adoption EITF No. 06-5 will have a material impact on financial condition of results of operations.

On February 15, 2007, the FASB issued its Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*. FAS 159 permits entities to elect to report most financial assets and liabilities at their fair value with changes in fair value included in net income. The fair value option may be applied on an instrument-by-instrument or instrument class-by-class basis. The option is not available for deposits withdrawable on demand, pension plan assets and obligations, leases, instruments classified as stockholders' equity, investments in consolidated subsidiaries and variable interest entities and certain insurance policies. The new standard is effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Company is currently evaluating, and has not yet determined, the impact the new standard is expected to have on its financial position and results of operations.

Item 2. Management's Discussion and Analysis or Plan of Operation

Forward Looking Statements

This Quarterly Report on Form 10-QSB ("Form 10-QSB") contains statements which constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Form 10-QSB and include statements regarding the intent, belief, outlook, estimate or expectations of Third Century (as defined in the notes to the consolidated condensed financial statements), its directors or its officers primarily with respect to future events and the future financial performance of Third Century. Readers of the Form 10-QSB are cautioned that any such forward looking statements are not guarantees of future events or performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. The accompanying information contained in this Form 10-QSB identifies important factors that could cause such differences. These factors include changes in interest rates; loss of deposits and loan demand to other financial institutions; substantial changes in financial markets; changes in real estate values and the real estate market; or regulatory changes, as discussed further below:

(a) **Regulatory Risk.** The banking industry is heavily regulated. These regulations are intended to protect depositors, not shareholders. Third Century and Mutual are subject to regulation and supervision by the Indiana Department of Financial Institutions, Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System. The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. The banking industry continues to lose market share to such competitors.

(b) **Legislation.** Because of concerns relating to the competitiveness and the safety and soundness of the industry, Congress continues to consider a number of wide-ranging proposals for altering the structure, regulation, and

competitive relationships of the nation's

9

Index

financial institutions. Management cannot predict whether or in what form any of these proposals will be adopted or the extent to which the business of Third Century or Mutual may be affected thereby.

(c) **Credit Risk.** One of the greatest risks facing lenders is credit risk, that is, the risk of losing principal and interest due to a borrower's failure to perform according to the terms of a loan agreement. While management attempts to provide an allowance for loan losses at a level adequate to cover probable incurred losses based on loan portfolio growth, past loss experience, general economic conditions, information about specific borrower situations, and other factors (all as discussed below in Critical Accounting Policies--Allowance for Loan Losses), future adjustments to reserves may become necessary, and net income could be significantly affected, if circumstances differ substantially from assumptions used with respect to such factors.

(d) **Exposure to Local Economic Conditions.** Mutual's primary market area for deposits and loans encompasses Johnson County and southeast Marion County, in central Indiana. A substantial percent of the Bank's business activities are within this area. This concentration exposes the Bank to risks resulting from changes in the local economy. A dramatic drop in local real estate values would, for example, adversely affect the quality of the Bank's loan portfolio.

(e) **Interest Rate Risk.** Third Century's earnings depend to a great extent upon the level of net interest income, which is the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings. Interest rate risk is the risk that the earnings and capital will be adversely affected by changes in interest rates.

(f) **Competition.** The activities of Third Century and Mutual in the geographic market served involve competition with other banks as well as with other financial institutions and enterprises, many of which have substantially greater resources than those available to Third Century. In addition, non-bank competitors are generally not subject to the extensive regulation applicable to Third Century and Mutual.

Critical Accounting Policies

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of Third Century must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of Third Century's significant accounting policies, see Note 1 to the Consolidated Financial Statements of Third Century's Form 10KSB as of December 31, 2006. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of Third Century's Board of Directors. Those policies include the following:

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses inherent in the Bank's loan portfolios. In determining the appropriate amount of the allowance for loan losses, management makes numerous assumptions, estimates and assessments.

The strategy also emphasizes diversification on an industry and customer level, regular credit quality reviews and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality.

Mutual's allowance consists of three components: probable losses estimated from individual reviews of specific loans, probable losses estimated from historical loss rates, and probable losses resulting from economic or other deterioration

above and beyond what is reflected in the first two components of the allowance.

Index

Larger commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, reserves are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to Mutual. Included in the review of individual loans are those that are impaired as provided in SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. Any allowances for impaired loans are determined by the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the underlying collateral. Mutual evaluates the collectibility of both principal and interest when assessing the need for a loss accrual. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations.

Homogenous smaller balance loans, such as consumer installment and residential mortgage loans are not individually risk graded. Reserves are established for each pool of loans based on the expected net charge-offs for one year. Loss rates are based on the average net charge-off history by loan category.

Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the national and local economies, trends in the nature and volume of loans (delinquencies, charge-offs and nonaccrual loans), changes in mix, asset quality trends, risk management and loan administration, changes in the internal lending policies and credit standards, collection practices and examination results from bank regulatory agencies and the Bank's internal loan review.

An unallocated reserve is maintained to recognize the imprecision in estimating and measuring loss when evaluating reserves for individual loans or pools of loans. Allowances on individual loans are reviewed quarterly and historical loss rates are reviewed annually and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience.

Mutual's primary market area for lending is southeastern Marion County and Johnson County, Indiana. When evaluating the adequacy of the allowance, consideration is given to this regional geographic concentration and the closely associated effect changing economic conditions have on Mutual's customers.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) associated with loans originated and sold, where servicing is retained, are capitalized and included in other intangible assets in the consolidated balance sheet. The value of the capitalized servicing rights represents the present value of future servicing fees arising from the right to service loans in the portfolio. Critical accounting policies for MSRs relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of MSRs requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the MSRs is periodically reviewed for impairment based on a determination of fair value. For purposes of measuring impairment, the servicing rights are compared to a valuation prepared based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates. Impairment, if any, is recognized through a valuation allowance and is recorded as amortization of intangible assets.

Comparison of Financial Condition at June 30, 2007 and at December 31, 2006

Total assets increased \$2.4 million or 1.81% to \$135.9 million at June 30, 2007 from \$133.5 million at December 31, 2006. Total held to maturity securities increased \$2.6 million or 49.88% to \$7.8 million at June 30, 2007 from \$5.2 million at December 31, 2006. The increase in held to maturity securities resulted from the investment of cash received from an increase in total deposits of \$2.9 million or 3.30%.

Index

The allowance for loan losses decreased \$55,000 or 5.91% to \$881,000 at June 30, 2007 from \$936,000 at December 31, 2006. At June 30, 2007, the allowance for loan losses represented 0.79% of total loans outstanding, which decreased from 0.83% at December 31, 2006. Non-performing assets increased to \$336,000 at June 30, 2007 from \$109,000 at December 31, 2006, which represented 0.25% and 0.08% of total assets for the same respective periods. No additional provision to the allowance for loan losses is currently deemed necessary due to the strength of the collateral associated with the non-performing assets.

Total liabilities increased by \$3.0 million or 2.60% to \$116.7 million at June 30, 2007 from \$113.7 million at December 31, 2006. The majority of this increase was due to growth in total deposits to \$91.5 million at June 30, 2007 from \$88.6 million at December 31, 2006. Savings, NOW and money market balances increased to \$41.9 million at June 30, 2007, which represented an increase of \$1.8 million, or 4.47%. The Bank opened several new money market accounts since December 31, 2006, which represented \$3.5 million in new balances as of June 30, 2007. Mutual does not currently bid for public funds or offer brokered deposits.

Total stockholders' equity decreased to \$18.8 million at June 30, 2007 from \$19.4 million at December 31, 2006, representing a decrease of \$595,000 or 3.06%. On November 17, 2006, the Company announced that its Board of Directors had authorized the repurchase of up to 5% of its outstanding shares of common stock, or 82,656 shares, commencing November 17, 2006. As of June 30, 2007, the Company paid \$729,000 to repurchase 61,684 shares of stock. The equity contributed by the ESOP increased \$59,000 to \$383,000 at June 30, 2007 from \$324,000 at December 31, 2006. Third Century paid year-to-date cash dividends of \$119,000.

Comparison of Operating Results for the Three Months Ended June 30, 2007 and 2006

General. Net income for the quarter ended June 30, 2007 was \$73,000 compared to net income of \$138,000 for the quarter ended June 30, 2006. Net interest income decreased \$34,000 or 2.84% and other income decreased by \$21,000, or 8.30% for the quarter ended June 30, 2007 compared to the quarter ended June 30, 2006. Other expenses increased by \$39,000 or 3.24%.

Interest Income. Interest income for the quarter ended June 30, 2007 was \$2.1 million compared to \$1.9 million for the quarter ended June 30, 2006. The increase during the comparative periods of \$197,000, consisted primarily of increases in interest income from interest-earning deposits of \$96,000 or 290.91% and in interest income from loans of \$91,000 or 5.02%.

The average balances of interest-earning assets for the quarter ended June 30, 2007 was \$132.4 million, which represented an increase of \$7.8 million or 6.30%, from the quarter ended June 30, 2006. The average yield on the average balance of interest-earning assets increased to 6.45% for the quarter ended June 30, 2007 from 6.23% for the quarter ended June 30, 2006. The average yield on interest-earning deposits increased 138 basis points and the average yield on loan balances increased by 25 basis points during the quarter ended June 30, 2007 as compared to the quarter ended June 30, 2006. The average balance for interest-earning deposits increased \$7.3 million to \$11.5 million and average balances for loans increased \$1.3 million to \$112.8 million during the quarter ended June 30, 2007 as compared to the quarter ended June 30, 2006.

Interest Expense. Interest expense for the quarter ended June 30, 2007 was \$974,000 compared to \$743,000 for the quarter ended June 30, 2006, an increase of \$231,000 or 31.09%. The average balance of interest-bearing liabilities increased to \$108.1 million for the quarter ended June 30, 2007 from \$96.9 million for the quarter ended June 30, 2006, with the average interest rate increasing to 3.60% from 3.07% for the same respective periods.

Net Interest Income. Net interest income of \$1.2 million for the quarter ended June 30, 2007 reflects a \$34,000 or 2.84% decrease from the net interest income before provision for loan losses for the quarter ended June 30, 2006.

Provision for Loan Losses. Mutual recorded a provision for loan losses of \$15,000 during the quarters ended June 30, 2007 and June 30, 2006. In evaluating the adequacy of loan loss allowances,

Index

management considers factors such as delinquency trends, portfolio composition, past loss experience and other factors such as general economic conditions. During the past year, Mutual's nonperforming assets increased to \$336,000 at June 30, 2007 from \$86,000 at June 30, 2006 and the percentage of nonperforming assets to total assets increased to 0.25% from 0.07% for the same respective time periods. Mutual recorded charge offs of \$35,000 less recoveries of \$2,000 for the quarter ended June 30, 2007 and charge offs of \$28,000 less recoveries of \$1,000 for the quarter ended June 30, 2006. Although nonperforming assets have increased for the quarter ended June 30, 2007 as compared to the quarter ended June 30, 2006, the collateral associated with the nonperforming assets is adequate enough to cover any potential losses and requires no additional provision at this time.

Other Income. Total other income was \$232,000 for the quarter ended June 30, 2007 and \$253,000 for the quarter ended June 30, 2006, which represents a decrease of \$21,000 or 8.30%. For the quarter ended June 30, 2006, the Bank recorded a \$20,000 gain on sale of REO property. In addition, commercial loan fees declined by \$12,000 or 59.82% to \$8,000 for the quarter ended June 30, 2007 from \$20,000 for the quarter ended June 30, 2006 due to the reduction in commercial loan originators. These decreases were offset by an increase of \$8,000 or 142.07% in fees collected on loans sold to and underwritten for another bank to \$14,000 for the quarter ended June 30, 2006 from \$6,000 for the quarter ended June 30, 2006, which is part of the Bank's strategy to manage interest rate risk associated with long-term, fixed-rate one-to-four family mortgages.

Other Expense. Total other expense for each of the quarters ended June 30, 2007 and 2006 was approximately \$1.2 million. Professional services increased \$25,000 or 92.59% to \$52,000 for the quarter ended June 30, 2007 from \$27,000 for the quarter ended June 30, 2006. This increase was due to the outsourcing of the Bank's internal audit function and bank secrecy audits as well as increased legal fees resulting from regulatory reporting changes required for proxy statements. The increase in professional services was offset by a decrease in officer and employee salaries of \$30,000 or 5.96% to \$475,000 for the quarter ended June 30, 2007 from \$505,000 for the quarter ended June 30, 2006. Two branch managers retired and two officers of the Bank resigned since December 2006.

Income Taxes. Income tax expense for the quarter ended June 30, 2007 was \$64,000 as compared to \$93,000 for the quarter ended June 30, 2006, which represents an increase in the effective tax rate to 46.72% at June 30, 2007 from 40.26% at June 30, 2006. Third Century, Mutual and Financial file separate tax returns. The increase in the effective tax rate between the reporting periods is due to the parent company, Third Century, recording a net loss for the quarter ended June 30, 2007 for which no income tax benefit was recognized.

Comparison of Operating Results for the Six Months Ended June 30, 2007 and 2006

General. Net income for the six months ended June 30, 2007 was \$113,000 compared to net income of \$281,000 for the six months ended June 30, 2006. Net interest income decreased \$113,000 or 4.73% and other income decreased by \$51,000, or 10.76% for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. In contrast, other expenses increased by \$85,000 or 3.59%.

Interest Income. Interest income for the six months ended June 30, 2007 was \$4.2 million compared to \$3.8 million for the six months ended June 30, 2006. The increase during the comparative periods of \$416,000, consisted primarily of increases in interest income from loans of \$300,000 or 8.58% and in interest income from interest-earning deposits of \$141,000 or 176.25%.

The average balances of interest-earning assets for the six months ended June 30, 2007 was \$130.5 million, which represented an increase of \$6.7 million or 5.40%, from the six months ended June 30, 2006. The average yield on the average balance of interest-earning assets increased to 6.42% for the six months ended June 30, 2007 from 6.10% for the six months ended June 30, 2006. The average yield on interest-earning deposits increased 105 basis points and the average yield on loan balances increased by 33 basis points during the six months ended June 30, 2007 as compared to

the six months ended June 30, 2006. The average balance for interest-earning deposits increased \$5.2 million to \$9.9

Index

million and average balances for loans increased \$3.6 million to \$113.2 million during the six months ended June 30, 2007 as compared to the quarter ended June 30, 2006.

Interest Expense. Interest expense for the six months ended June 30, 2007 was \$1.9 million compared to \$1.4 million for the six months ended June 30, 2006, an increase of \$529,000 or 38.25%. The average balance of interest-bearing liabilities increased to \$106.3 million for the six months ended June 30, 2007 from \$95.6 million for the six months ended June 30, 2006, with the average interest rate increasing to 3.59% from 2.89% for the same respective periods.

Net Interest Income. Net interest income before provision for loan losses decreased to \$2.3 million for the six months ended June 30, 2007 from \$2.4 million for the six months ended June 30, 2006, which represents a decrease of \$113,000 or 4.73%.

Provision for Loan Losses. Mutual recorded a provision for loan losses of \$30,000 during the six month reporting periods ended June 30, 2007 and June 30, 2006. In evaluating the adequacy of loan loss allowances, management considers factors such as delinquency trends, portfolio compositions, past loss experience and other factors such as general economic conditions. During the past year, Mutual's nonperforming assets increased to \$336,000 at June 30, 2007 from \$86,000 at June 30, 2006 and the percentage of nonperforming assets to total assets increased to 0.25% from 0.07% for the same respective time periods. Mutual recorded charge offs of \$88,000 less recoveries of \$3,000 for the six months ended June 30, 2007 and charge offs of \$29,000 less recoveries of \$4,000 for the six months ended June 30, 2006. Although nonperforming assets have increased for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006, the collateral associated with the nonperforming assets is adequate enough to cover any potential losses and requires no additional provision at this time.

Other Income. Total other income was \$423,000 for the six months ended June 30, 2007 and \$474,000 for the six months ended June 30, 2006, which represents a decrease of \$51,000 or 10.76%. For the six months ended June 30, 2006, the bank recorded a \$20,000 gain on sale of REO property. In addition, commercial loan fees declined by \$19,000 or 59.85% to \$13,000 for the six months ended June 30, 2007 from \$32,000 for the six months ended June 30, 2006 and service charges on deposit accounts decreased \$12,000 or 8.28% to \$133,000 from \$145,000 for the same respective reporting periods. The decrease in commercial loan fees was primarily due to the reduction in commercial loan originators as a result of a resignation in March 2007.

Other Expense. Total other expense increased \$85,000 or 3.59% to \$2.5 million for the six months ended June 30, 2007 from \$2.4 million for the six months ended June 30, 2006. Net occupancy and equipment expenses increased \$42,000 or 17.65% to \$280,000 for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006. The Bank started recording depreciation and utility expenses for its Franklin Central Branch, which opened June 1, 2006.

The category "other" increased \$42,000 or 12.17% to \$387,000 for the six months ended June 30, 2007 from \$345,000 for the six months ended June 30, 2006. Expenses for courier services, bank charges, interchange expense, office supplies and promotional materials increased \$32,000 or 19.44% for the six months ended June 30, 2007 when compared to the six months ended June 30, 2006. This increase was due primarily to the addition of a new branch, increased promotional efforts for specific products and increased usage of our debit and credit cards.

Income Taxes. Income tax expense for the six months ended June 30, 2007 was \$103,000 as compared to \$184,000 for the six months ended June, 30, 2006, which represents an increase in the effective tax rate to 47.69% at June 30, 2007 from 39.57% at June 30, 2006. Third Century, Mutual and Financial file separate tax returns. The increase in the effective tax rate between the reporting periods is due to the parent company, Third Century, recording a net loss for the six months ended June 30, 2007 for which no income tax benefit was recognized.

Index**Other**

The Securities and Exchange Commission maintains a Web site that contains reports, proxy information statements, and other information regarding registrants that file electronically with the Commission, including Third Century. The address is <http://www.sec.gov>.

Item 3. Controls and Procedures

A. Evaluation of disclosure controls and procedures. Third Century's chief executive officer and chief financial officer, after evaluating the effectiveness of Third Century's disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of regulations promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the most recent fiscal quarter covered by this quarterly report (the "Evaluation Date"), have concluded that as of the Evaluation Date, Third Century's disclosure controls and procedures were effective in ensuring that information required to be disclosed by Third Century in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

B. Changes in internal control over financial reporting. There were no changes in Third Century's internal control over financial reporting identified in connection with Third Century's evaluation of controls that occurred during Third Century's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, Third Century's internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

Third Century, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which Mutual Savings Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of Third Century. There were no lawsuits pending or known to be contemplated against Third Century at June 30, 2007 that would have a material effect on Third Century's operations or income.

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

On November 17, 2006, the Company announced that its Board of Directors had authorized the repurchase of up to 5% of its outstanding shares of common stock, or 82,656 shares, commencing November 17, 2006. The following table summarizes the purchases that occurred during the three months ended June 30, 2007:

Month of Purchase	Total Shares Purchased	Weighted Average Price Per Share	Total Number of Shares Purchased As Part Of A Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under The Plan
April	17,650	\$ 12.02	42,932	39,724
May	2,016	\$ 11.66	44,948	37,708
June	16,736	\$ 11.76	61,684	20,972

Total	36,402	\$ 11.88	61,684	20,972
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Item 3.

Defaults Upon Senior Securities

None.

15

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

On May 16, 2007, Third Century Bancorp held its annual meeting of shareholders. There were present at the meeting in person or by proxy the holders of 1,416,000 votes. At the annual meeting, the following matters were submitted to a vote of security holders:

- a) Election of Directors. The following persons were elected as members of the Board of Directors, for the terms set forth below:

	<u>Term</u> <u>Expires</u>	<u>Votes</u> <u>For</u>	<u>Votes</u> <u>Withheld</u>
Robert D. Heuchan	2009	1,232,412	183,588

- b) That by a vote of 1,415,670 votes (99.97%) in favor, 300 votes (.02%) withheld, 30 votes abstained (.01%), the following resolution was adopted by the Company's shareholders:
RESOLVED, that the appointment of BKD, LLP to act as the Company's independent registered public accounting firm for the year ending December 31, 2007 is hereby ratified.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits filed as part of this Form 10-QSB are listed in the Exhibit Index, which is incorporated by this reference.

Index

Signatures

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

THIRD CENTURY BANCORP

Date: August 10, 2007

By: /s/ Robert D. Heuchan
Robert D. Heuchan
President and Chief
Executive Officer

By: /s/ Debra K. Harlow
Debra K. Harlow
Chief Financial Officer

Index

Exhibit Index

Exhibit No.	Description
<u>31.1</u>	Rule 13a-14(a) Certification of Robert D. Heuchan, President and Chief Executive Officer
<u>31.2</u>	Rule 13a-14(a) Certification of Debra K. Harlow, Vice President and Chief Financial Officer
<u>32.1</u>	Section 1350 Certification of Robert D. Heuchan
<u>32.2</u>	Section 1350 Certification of Debra K. Harlow