CENTRAL BANCORP INC /MA/
Form 10-Q
November 14, 2002

U.S. 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 QUARTER ENDED SEPTEMBER 30, 2002

COMMISSION FILE NUMBER: 0-25251

CENTRAL BANCORP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

MASSACHUSETTS
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

I.R.S. EMPLOYER IDENTIFICATION NO. 04-3447594

399 HIGHLAND AVENUE, SOMERVILLE, MA. 02144
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(617) 628-4000
REGISTRANT'S TELEPHONE NUMBER

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 such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Class	Outstanding at November 12, 2002
Common Stock, $1.00 par value	1,659,933

CENTRAL BANCORP, INC.

TABLE OF CONTENTS

		PAGE NO.
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Financial Condition at September 30, 2002 and March 31, 2002	1
	Consolidated Statements of Income for the three and six months ended September 30, 2002 and 2001	2
	Consolidated Statements of Changes in Stockholders'	

	Equity for the six months ended September 30, 2002 and 2001	3
	Consolidated Statements of Cash Flows for the six months ended September 30, 2002 and 2001	4
	Notes to Unaudited Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
	Liquidity and Capital Resources	12
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	13
Item 4.	Controls and Procedures	14

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	15
Item 2.	Changes in Securities and Use of Proceeds	15
Item 3.	Defaults upon Senior Securities	15
Item 4.	Submission of Matters to a Vote of Security Holders	15
Item 5.	Other Information	15
Item 6.	Exhibits and Reports on Form 8-K	15

SIGNATURES AND CERTIFICATIONS

Item 1. Financial Statements

CENTRAL BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition

(Dollars in Thousands)	September 30, 2002
ASSETS	(Unaudited)
Cash and due from banks	$ 7,482
Short-term investments	7,511
Cash and cash equivalents	14,993
Investment securities available for sale (amortized cost of $70,779 at September 30, 2002 and $74,935 at March 31, 2002)	70,546
Stock in Federal Home Loan Bank of Boston, at cost	8,300
The Co-operative Central Bank Reserve Fund	1,576
Total investments	80,422
Loans (Note 2)	369,843

Less allowance for loan losses	3,294
Net loans	366,549
Accrued interest receivable	2,626
Banking premises and equipment, net	1,863
Deferred tax asset, net	1,371
Goodwill, net (Note 1)	2,232
Other assets	487
Total assets	$ 470,543
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits (Note 3)	$ 276,448
Advances from Federal Home Loan Bank of Boston	151,700
Advance payments by borrowers for taxes and insurance	1,029
Accrued expenses and other liabilities	1,947
Total liabilities	431,124
Commitments and Contingencies (Note 5)	
Stockholders' equity (Note 6):	
Preferred stock $1.00 par value; authorized 5,000,000 shares; none issued or outstanding	--
Common stock $1.00 par value; authorized 15,000,000 shares; 2,025,227 shares issued at September 30, 2002 and 1,999,588 shares issued at March 31, 2002	2,025
Additional paid-in capital	12,573
Retained income	34,506
Treasury stock (365,294 shares at September 30, 2002 and at March 31, 2002), at cost	(7,204)
Accumulated other comprehensive income (loss) (Note 4)	(108)
Unearned compensation - ESOP	(2,373)
Total stockholders' equity	39,419
Total liabilities and stockholders' equity	$ 470,543

See accompanying notes to unaudited consolidated financial statements.

1

CENTRAL BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Income
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
Interest and dividend income:				
Mortgage loans	$ 6,088	$ 5,797	$ 12,292	$ 11,946
Other loans	147	182	293	364
Short-term investments	68	329	95	801
Investments	1,147	872	2,328	1,668
Total interest and dividend income	7,450	7,180	15,008	14,779
Interest expense:				

Deposits	1,486	2,177	2,981	4,814
Advances from Federal Home Loan Bank of Boston	1,848	1,643	3,631	3,369
Total interest expense	3,334	3,820	6,612	8,183
Net interest and dividend income	4,116	3,360	8,396	6,596
Provision for loan losses	--	--	--	--
Net interest and dividend income after provision for loan losses	4,116	3,360	8,396	6,596
Non-interest income:				
Deposit service charges	133	105	262	229
Net gains (losses) from sales and write-downs of investment securities	(221)	121	(210)	324
Other income	146	111	229	193
Total non-interest income	58	337	281	746
Non-interest expenses:				
Salaries and employee benefits	1,653	1,515	3,291	3,048
Occupancy and equipment	288	277	569	595
Data processing service fees	255	220	546	490
Professional fees	454	362	703	554
Goodwill amortization (Note 1)	--	72	--	144
Other expenses	482	360	914	787
Total non-interest expenses	3,132	2,806	6,023	5,618
Income before income taxes	1,042	891	2,654	1,724
Provision for income taxes	374	327	959	630
Net income	$ 668	$ 564	$ 1,695	$ 1,094
Earnings per common share - basic	$ 0.42	$ 0.34	$ 1.06	$ 0.66
Earnings per common share - diluted	$ 0.42	$ 0.34	$ 1.05	$ 0.65
Weighted average common shares outstanding - basic	1,585	1,666	1,592	1,664
Weighted average common and equivalent shares outstanding - diluted	1,600	1,683	1,609	1,678

See accompanying notes to unaudited consolidated financial statements.

2

CENTRAL BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(In Thousands)	Common Stock	Additional Paid-In Capital	Retained Income	Tr
Six Months Ended September 30, 2002				
Balance at March 31, 2002	$ 2,000	$ 11,934	$ 33,141	$

Net Income	--	--	1,695	
Other comprehensive income net of tax:				
Unrealized gain on securities, net of reclassification adjustment	--	--	--	
Comprehensive income				
Proceeds from exercise of stock options	25	449	--	
Tax benefit of stock options	--	55	--	
Purchase of shares by ESOP	--	--	--	
Director deferred compensation transactions	--	9	--	
Dividends paid ($0.20 per share)	--	--	(330)	
Amortization of unearned compensation - ESOP	--	126	--	
Balance at September 30, 2002	$ 2,025	$ 12,573	$ 34,506	$
Six Months Ended September 30, 2001				
Balance at March 31, 2001	$ 1,970	$ 11,190	$ 30,950	$
Net Income	--	--	1,094	
Other comprehensive income net of tax:				
Unrealized gain on securities, net of reclassification adjustment	--	--	--	
Comprehensive income				
Proceeds from exercise of stock options	20	317	--	
Purchase of treasury stock	--	--	--	
Dividends paid ($0.20 per share)	--	--	(336)	
Amortization of unearned compensation - ESOP	--	95	--	
Balance at September 30, 2001	$ 1,990	$ 11,602	$ 31,708	$

(In Thousands)	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation ESOP	T Stock Eq
Six Months Ended September 30, 2002			
Balance at March 31, 2002	$ (626)	$ (306)	$ 3
Net Income	--	--	
Other comprehensive income net of tax:			
Unrealized gain on securities, net of reclassification adjustment	518	--	
Comprehensive income			
Proceeds from exercise of stock options	--	--	
Tax benefit of stock options	--	--	
Purchase of shares by ESOP	--	(2,123)	(
Director deferred compensation transactions	--	--	
Dividends paid ($0.20 per share)	--	--	
Amortization of unearned compensation - ESOP	--	56	
Balance at September 30, 2002	$ (108)	$ (2,373)	$ 3

Six Months Ended September 30, 2001			
Balance at March 31, 2001	$ (431)	$ (237)	$ 3
Net Income	--	--	
Other comprehensive income net of tax:			
Unrealized gain on securities, net of reclassification adjustment	13	--	
Comprehensive income			
Proceeds from exercise of stock options	--	--	
Purchase of treasury stock	--	--	
Dividends paid ($0.20 per share)	--	--	
Amortization of unearned compensation - ESOP	--	65	
Balance at September 30, 2001	$ (418)	$ (172)	$ 3

See accompanying notes to unaudited consolidated financial statements.

3

CENTRAL BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended September 30, 2002	2001
Cash flows from operating activities:		
Net income	$ 1,695	$ 1,094
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	157	205
Amortization of premiums	115	68
Amortization of goodwill	--	144
Stock-based compensation	182	160
Net (gains) losses from sales and write-downs of investment securities	210	(324)
(Increase) decrease in accrued interest receivable	(96)	(47)
(Increase) decrease in other assets	(276)	169
Increase in advance payments by borrowers for taxes and insurance	(82)	33
Increase (decrease) in accrued expenses and other liabilities	(467)	(273)
Net cash provided by operating activities	1,438	1,229
Cash flows from investing activities:		
Net decrease in loans	1,866	27,637
Principal payments on mortgage-backed securities	3,142	3,573
Purchase of investment securities	(5,183)	(39,106)
Maturities and calls of investment securities	2,000	20,000
Proceeds from sales of investment securities	4,096	1,295
Purchase of banking premises and equipment	(186)	(137)

Net cash provided by investing activities	5,735	13,262
Cash flows from financing activities:		
Increase (decrease) in deposits	14,541	(16,299)
Proceeds from advances from FHLB of Boston	24,000	--
Repayments on advances from FHLB of Boston	(36,300)	(13,000)
Proceeds from exercise of stock options	474	337
Purchase of treasury stock	--	(729)
Purchase of shares by ESOP	(2,123)	--
Dividends paid	(330)	(336)
Net directors deferred compensation	(6)	--
Net cash provided by (used in) financing activities	256	(30,027)
Net increase (decrease) in cash and cash equivalents	7,429	(15,536)
Cash and cash equivalents at beginning of period	7,564	39,880
Cash and cash equivalents at end of period	$ 14,993	$ 24,344
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 6,612	$ 8,271
Income taxes	$ 1,820	$ 868

See accompanying notes to unaudited consolidated financial statements.

4

CENTRAL BANCORP, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

(1) BASIS OF PRESENTATION

The unaudited consolidated financial statements of Central Bancorp, Inc. and its wholly-owned subsidiary Central Co-operative Bank (collectively referred to as "the Company") presented herein should be read in conjunction with the consolidated financial statements of the Company as of and for the year ended March 31, 2002, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation. Interim results are not necessarily indicative of results to be expected for the entire year.

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in its Form 10-K for the year ended March 31, 2002. For interim reporting purposes, the Company follows the same significant accounting policies. As set forth in Note 1 of the Form 10-K, the Company initially applied the requirements of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142) beginning April 1, 2002 and, accordingly, no amortization of goodwill was recorded for the six months ended September 30, 2002. Net income and earnings per share for the three and six month periods ended September 30, 2001 would have been as follows had the requirements of SFAS No. 142 been applied retroactively (in thousands, except per share amounts):

	Three Months Ended September 30, 2001	Six Months Ended September 30, 200

Net income	$ 636	$ 1,238
Earnings per share - basic	$ 0.38	$ 0.74
Earnings per share - diluted	$ 0.38	$ 0.74

In the opinion of management, based upon its assessment, there was no impairment in the carrying value of goodwill at September 30, 2002.

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications have no effect on previously reported net income.

(2) LOANS

Loans as of September 30, 2002 and March 31, 2002 are summarized below (in thousands):

	September 30, 2002	March 31 2002
Real estate loans:		
Residential real estate	$ 247,876	$ 246,0
Commercial real estate	88,740	87,0
Construction	16,647	20,9
Second mortgage and home equity lines of credit	9,305	9,1
Total real estate loans	362,568	363,2
Commercial loans	5,870	6,9
Consumer loans	1,405	1,5
Total loans	369,843	371,7
Less: allowance for loan losses	(3,294)	(3,2
Total loans, net	$ 366,549	$ 368,4

There were no non-accrual loans at September 30, 2002 and March 31, 2002.

(3) DEPOSITS

Deposits at September 30, 2002 and March 31, 2002 are summarized as follows (in thousands):

	September 30, 2002	March 31 2002
Demand deposit accounts	$ 30,007	$ 25,3
NOW accounts	33,905	36,2
Regular, Club and 90 day notice accounts	70,719	72,9
Money market deposit accounts	34,973	17,9
Total non certificate accounts	169,604	152,5
Term deposit certificates		
Certificates of $100 and above	28,030	27,2
Certificates less than $100	78,814	82,0

Total term deposit certificates	106,844	109,3
Total deposits	$ 276,448	$ 261,9

(4) REPORTING COMPREHENSIVE INCOME

The Company has established standards for reporting and displaying comprehensive income, which is defined as all changes to equity except investments by, and distributions to, shareholders. Net income is a component of comprehensive income, with all other components referred to, in the aggregate, as other comprehensive income.

The Company's other comprehensive income (loss) and related tax effect is as follows (in thousands):

	For the Six Months Ended September 30, 2002		
	Before-Tax Amount	Tax(Benefit) Expense	After-Ta Amount
Unrealized gains (losses) on securities:			
Unrealized net holding gains arising during period	$ 608	$ 229	$ 379
Less: reclassification adjustment for net losses included in net income	(210)	(71)	(139
Other comprehensive income	$ 818	$ 300	$ 518

CENTRAL BANCORP, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2002

(4) REPORTING COMPREHENSIVE INCOME (CONTINUED)

	For the Six Months Ended September 30, 2001		
	Before-Tax Amount	Tax(Benefit) Expense	After-Ta Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period	$ 286	$ 67	$ 219
Less: reclassification adjustment for net gains included in net income	324	118	206
Other comprehensive income	$ (38)	$ (51)	$ 13

(5) CONTINGENCIES

Legal Proceedings

The Company from time to time is involved as plaintiff or defendant in various legal actions incident to its business. Except as described herein, none

of these actions are believed to be material, either individually or collectively, to the results of operations and financial condition of the Company.

Central Co-operative Bank (the Bank) has been named as defendant in a civil suit filed March 28, 2002 in Middlesex Superior Court under the caption Yi v. Central Bank in which it is alleged, inter alia, that the Bank committed an unfair or deceptive trade practice by failing to pay surplus foreclosure proceeds to a junior lien holder in 1994. Plaintiff seeks damages of $160,000 plus interest of approximately $150,000 and has applied for a multiple damage award under Chapter 93A of the Massachusetts General Laws which provides for up to treble damages if a violation is found to be willful or knowing. The Bank believes that it has meritorious defenses to all such claims and intends to vigorously defend against them.

State Income Taxes

In June 2002, the Bank received from the Commonwealth of Massachusetts Department of Revenue ("DOR") a Notice of Intent to Assess additional state excise taxes of $535,000 plus interest with respect to its tax years ended March 31, 2000 and 2001. In October 2002, the DOR sent the Bank a Notice of Assessment for the same amount. For the period April 1, 2001 to September 30, 2002, additional state excise taxes would be $420,000 applying the methodology set forth in the DOR's aforementioned notices. The Bank is aware that the DOR has sent similar notices to numerous other financial institutions in Massachusetts that reported a deduction for dividends received from a REIT during this period. Assessed amounts ultimately paid, if any, would be deductible expenses for federal income tax purposes.

The DOR contends that dividend distributions by the Bank's REIT to the Bank are fully taxable in Massachusetts. The Bank believes that the Massachusetts statute that provides for a dividends received deduction equal to 95% of certain dividend distributions applies to the distributions made by the Bank's REIT. Accordingly, no provision has been made in the Company's consolidated financial statements for the amounts assessed or additional amounts that might be assessed in the future. The Company intends to vigorously appeal the assessment and to pursue all available means to defend its position.

(6) SUBSEQUENT EVENTS

ESOP Stock Purchases

During fiscal 2002, the Company's Board of Directors authorized the Central Co-operative Bank Employee Stock Ownership Plan Trust (the ESOP) to acquire up to an additional 5% of outstanding shares of Company stock. During the six months ended September 30, 2002, the ESOP acquired 68,962 shares at a cost of $2,123,000. During October 2002, the Company completed its purchase of shares under this authorization by acquiring an additional 8,151 shares at a cost of $242,000.

Dividend

On October 10, 2002, the Board of Directors voted the payment of a quarterly cash dividend of $.12 per share. The dividend is payable on November 15, 2002 to stockholders of record on November 1, 2002.

The Co-operative Central Bank Special Dividend

On November 12, 2002, the Company received a special dividend of $144,700 from the Co-operative Central Bank, the entity which insures deposit balances in excess of FDIC coverage limits. While the payment of this dividend is determined

each year based on an evaluation of relevant economic factors, the Company had received a special dividend for the same amount in the prior fiscal year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

When used in this discussion and elsewhere in this Quarterly Report on Form 10-Q, the words or phrases "will likely result," "are expected to." "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including changes in regional and national economic conditions, unfavorable judicial decisions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2002 AND MARCH 31, 2002

Total assets increased by $2.3 million from $468.2 million at March 31, 2002 to $470.5 million at September 30, 2002. This increase occurred as a result of net deposit growth of $14.5 million which was primarily used to paydown maturing FHLB advances.

During the six months ended September 30, 2002, cash and cash equivalents increased by $7.4 million while investment securities and loans decreased by $3.3 million and $1.9 million, respectively. These changes reflect the impact of higher than normal loan prepayments due to the current lower rate interest environment. During the six months ended September 30, 2002, the Company originated $66.8 million in loans, including $27.6 million in commercial real estate loans.

During the six months ended September 30, 2002, the Company experienced core deposit growth of $17.0 million, or 11.2%. All of this growth was in money market deposits, the Company's highest-paying core deposit account. While deposit flows can vary significantly on a daily basis, the Company has experienced steady growth in core deposits during the past five quarters. This growth has been aided by the introduction and promotion of the Bank's Community Package Account product and the continuing uncertainty in the stock market.

FHLB advances were reduced by $12.3 million during the six months ended September 30, 2002. This decrease is consistent with the Company's overall strategy of reducing its utilization of FHLB advances.

The increase in stockholders' equity of $465,000 to $39.4 million at September 30, 2002 resulted primarily from net income of $1.7 million, an increase of $518,000 in the market value of investment securities available for sale, net of taxes and proceeds from the exercise of stock options of $474,000. These increases were partially offset by cash dividends and stock purchases by the Employee Stock Ownership Plan (ESOP) totaling $2.5 million. During the first half of the year, an additional 68,692 shares were purchased by the ESOP for a total purchase price of $2,123,000 ($30.91 share) which was funded by an internal loan.

COMPARISON OF OPERATING RESULTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2002 AND

2001

Net income increased by $104,000, or 18.4%, to $668,000 ($0.42 per diluted share) for the quarter ended September 30, 2002, compared to $564,000 ($0.34 per diluted share) in the same quarter in the prior year. Exclusive of the after tax impact of gains and losses on the sales and write-downs of investment securities, which adversely affected the increase in net income between years by $223,000, net income would have increased $327,000, or 67.1% for the quarter ended September 30, 2002 compared to the same quarter in the prior year. The significant increase was primarily due to an increase of $756,000 in net interest and dividend income, an increase of $63,000 in non-interest income (excluding securities transactions), partially offset by an increase of $326,000 in

non-interest expenses. The Company's effective tax rate was substantially unchanged at approximately 36% in both periods.

Interest Income. Interest income for the quarter ended September 30, 2002 was $7.5 million, an increase of $270,000 over the same quarter in the prior year despite a decrease in the yield on interest-earning assets from 6.81% in the second quarter of the prior year to 6.45% in the current quarter. Average interest-earning assets increased by $38.6 million, or 9.1%, to $462.0 million during the quarter ended September 30, 2002 from $423.4 million for the quarter ended September 30, 2001.

The principal area of growth in average balances for the quarter ended September 30, 2002 was in real estate loans (up $41.9 million, or 13.3%), which was partially offset by a decrease in investments of $3.6 million, all as compared to average balances for the quarter ended September 30, 2001.

Interest Expense. Interest expense for the quarter ended September 30, 2002 was $3.3 million compared to $3.8 million for the quarter ended September 30, 2001, a decrease of $486,000, or 12.7%. This significant decrease resulted from an 88 basis points decrease in the cost of funds from 4.21% in the quarter ended September 30, 2001 to 3.33% in the quarter ended September 30, 2002. This decrease was partially offset by an increase in average interest-bearing liabilities of $36.9 million in the current year period.

The significant decrease in the cost of funds in the second quarter of fiscal 2003 reflected the impact of the series of rate decreases initiated by the Federal Reserve Board beginning in January 2001, the repricing of a majority of certificates of deposit during the past year and a shift in deposits from higher cost certificates of deposit which represented 51.1% of deposits at the beginning of the second quarter of the prior fiscal year compared to 39.9% at the beginning of the second quarter of the current fiscal year.

Provisions for Loan Losses. The Company provides for loan losses in order to maintain the allowance for loan losses at a level that management estimates is adequate to absorb future charge-offs of loans deemed uncollectible. In determining the appropriate level of the allowance for loan losses, management considers past and anticipated loss experience, evaluations of underlying collateral, prevailing economic conditions, the nature and volume of the loan portfolio and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and ultimate losses may vary from such estimates. Management assesses the allowance for loan losses on a quarterly basis and provides for loan losses monthly in order to maintain the adequacy of the allowance.

Due to the high level of asset quality, as measured by low delinquency rates and the absence of non-performing loans during the past two years, the Company made no provision for loan losses during the quarters ended September 30, 2002 and 2001.

Non-interest Income. Exclusive of securities transactions, as previously

discussed, non-interest income was $279,000 for the quarter ended September 30, 2002 compared to $216,000 in the same period of 2001. The primary reason for the current year increase was prepayment penalties on commercial real estate loans.

Net gains (losses) from sales and write-downs of investment securities were ($221,000) for the quarter ended September 30, 2002 compared to $121,000 in the prior year period. The Company recorded a write-down of $220,000 in certain equity securities which had experienced a decline in fair value judged to be other than temporary during the quarter ended September 30, 2002.

Non-interest Expenses. Non-interest expenses increased $326,000 during the quarter ended September 30, 2002 as compared to the same quarter in 2001. Exclusive of the elimination of the amortization of goodwill in the current year as required by generally accepted accounting principles (SFAS No. 142), non-interest expenses increased $398,000, or 14.6%, due principally to increases in salaries and employee benefits ($138,000) and additional costs of approximately $275,000 (primarily professional fees) incurred in connection with the contested election of directors at the 2002 Annual Meeting of Stockholders.

The increase in salaries and employee benefits of $138,000, or 9.1%, during the quarter ended September 30, 2002, was due to overall salary increases averaging 4.7%, increases in staffing to support higher mortgage loan originations and additional ESOP expense due to an increase in market value of the Company's stock.

The increase in other expenses of $122,000, or 33.9%, during the quarter ended September 30, 2002 was primarily due to increases in advertising costs associated with lending activities and costs attributable to the aforementioned contested election of directors.

Income Taxes. The effective tax rates for the quarters ended September 30, 2002 and 2001 were 35.9% and 36.7%, respectively. These rates vary from the statutory income tax rate for banks of approximately 40.9% due to the Company's use of both a securities corporation and a REIT subsidiary for state tax purposes.

In June 2002, the Bank received from the Commonwealth of Massachusetts Department of Revenue ("DOR") a Notice of Intent to Assess additional state excise taxes of $535,000 plus interest with respect to its tax years ended March 31, 2000 and 2001. In October 2002, the DOR sent the Bank a Notice of Assessment for the same amount. For the period April 1, 2001 to September 30, 2002, additional state excise taxes would be $420,000 applying the methodology set forth in the DOR's aforementioned notices. The Bank is aware that the DOR has sent similar notices to numerous other financial institutions in Massachusetts that reported a deduction for dividends received from a REIT during this period. Assessed amounts ultimately paid, if any, would be deductible expenses for federal income tax purposes.

The DOR contends that dividend distributions by the Bank's REIT to the Bank are fully taxable in Massachusetts. The Bank believes that the Massachusetts statute that provides for a dividends received deduction equal to 95% of certain dividend distributions applies to the distributions made by the Bank's REIT. Accordingly, no provision has been made in the Company's consolidated financial statements for the amounts assessed or additional amounts that might be assessed in the future. The Company intends to vigorously appeal the assessment and to pursue all available means to defend its position.

COMPARISON OF OPERATING RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

Net income increased by $601,000, or 54.9%, to $1.7 million ($1.05 per diluted share) for the six months ended September 30, 2002, compared to $1.1 million ($0.65 per diluted share) in the same period in the prior year. Exclusive of the after tax impact of gains and losses on the sales and write-downs of investment securities, which adversely affected the increase in

net income between years by $346,000, net income would have increased by $947,000, or 106.8%, for the six months ended September 30, 2002 compared to the same period in the prior year. The significant increase was primarily due an increase of $1.8 million in net interest and dividend income, partially offset by an increase of $405,000 in non-interest expenses. The Company's effective tax rate was unchanged at approximately 36% in both periods.

Interest Income. Interest income for the six months ended September 30, 2002 was $15.0 million, or $229,000 greater than the amount earned in the same period in the prior year despite a decrease in the yield on interest-earning assets from 6.90% in the first six months of the prior year to 6.54% in the same period of the current year. Average interest-earning assets increased by $30.4 million, or 7.1%, to $458.7 million during the six months ended September 30, 2002 from $428.3 million for the six months ended September 30, 2001.

The principal area of growth in average balances for the six months ended September 30, 2002 was in real estate loans (up $33.4 million, or 10.3%) which was partially offset by a decrease in investments of $3.5 million, all as compared to average balances for the six months ended September 30, 2001.

Interest Expense. Interest expense for the six months ended September 30, 2002 was $6.6 million compared to $8.2 million for the six months ended September 30, 2001, a decrease of $1.6 million, or 19.2%. This significant decrease resulted from a 110 basis points decrease in the cost of funds from 4.41% in the six months ended September 30, 2001 to 3.31% in the six months ended September 30, 2002. This decrease was partially offset by an increase in average interest-bearing liabilities of $28.2 million in the current year period.

The significant decrease in the cost of funds in the first half of fiscal 2003 reflected the impact of the series of rate decreases initiated by the Federal Reserve Board beginning in January 2001, the repricing of a majority of certificates of deposit during the past year and a shift in deposits from higher cost certificates of deposit which

represented 52.9% of deposits at the beginning of the prior year compared to 41.7% at the beginning of the current year.

Provisions for Loan Losses. Due to the high level of asset quality, as measured by low delinquency rates and the absence of non-performing loans during the past two years, the Company made no provision for loan losses during the six months ended September 30, 2002 and 2001.

Non-interest Income. Exclusive of securities transactions, as previously discussed, non-interest income was $491,000 for the six months ended September 30, 2002 compared to $422,000 in the same period of 2001. The primary reason for the $69,000 increase in the current year was prepayment penalties on commercial real estate loans.

Net gains (losses) from sales and write-downs of investment securities were ($210,000) for the six months ended September 30, 2002 compared to $324,000 in the comparable prior year period. During the six months ended September 30, 2002, the Company recorded write-downs of $440,000 in certain equity securities which had experienced a decline in fair value judged to be other than temporary.

Non-interest Expenses. Non-interest expenses increased $405,000 during the six months ended September 30, 2002 as compared to the corresponding period in the prior year. Exclusive of the elimination of the amortization of goodwill in the current year as required by generally accepted accounting principles (SFAS No. 142), non-interest expenses increased $549,000, or 10.0%, due principally to increases in salaries and employee benefits ($243,000) and additional costs of approximately $350,000 (primarily professional fees) incurred in connection with the contested election of directors at the 2002 Annual Meeting of Stockholders.

The increase in salaries and employee benefits of $243,000, or 8.0%, during

the six months ended September 30, 2002, was due to overall salary increases averaging 4.7%, increases in staffing to support higher mortgage loan originations and additional ESOP expense due to an increase in market value of the Company's stock.

The increase in other expenses of $127,000, or 16.1%, during the six months ended September 30, 2002 was primarily due to increases in costs associated with the higher level of lending activities and costs attributable to the aforementioned contested election of directors.

Income Taxes. The effective tax rates for the six months ended September 30, 2002 and 2001 were 36.1% and 36.5%, respectively. These rates vary from the statutory income tax rate for banks of approximately 40.9% due to the Company's use of both a securities corporation and a REIT subsidiary for state tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of liquidity are loan amortization, loan prepayments, increases in deposits, advances from the Federal Home Loan Bank (FHLB) of Boston and funds from operations. The Bank is a voluntary member of the FHLB of Boston and as such is entitled to borrow up to the value of its qualified collateral that has not been pledged to others. Qualified collateral generally consists of residential first mortgage loans, U. S. Government and agencies securities and funds on deposit at the FHLB of Boston. At September 30, 2002, the Bank had approximately $31.7 million in unused borrowing capacity at the FHLB of Boston.

At September 30, 2002, the Company had commitments to originate loans, unused outstanding lines of credit and undisbursed proceeds of loans totaling $80.3 million. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company anticipates that it will have sufficient funds available to meet its current loan commitments.

12

The Company's and the Bank's capital ratios at September 30, 2002 were as follows:

	Company	Bank
Total Capital (to risk-weighted assets)	12.93%	11.89%
Tier 1 Capital (to risk-weighted assets)	11.87	10.82
Tier 1 Capital (to average assets)	7.77	7.09

These ratios placed the Company in excess of regulatory standards and the Bank in the "well capitalized" category as set forth by the FDIC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's earnings are largely dependent on its net interest income, which is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The Company seeks to reduce its exposure to changes in interest rate, or market risk, through active monitoring and management of its interest-rate risk exposure. The policies and procedures for managing both on- and off-balance sheet activities are established by the Bank's asset/liability management committee ("ALCO"). The Board of Directors reviews and approves the ALCO policy annually and monitors related activities on an ongoing basis.

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk

inherent in its lending, borrowing and deposit taking activities.

The main objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on net interest income and preserve capital, while adjusting the asset/liability structure to control interest-rate risk. However, a sudden and substantial increase or decrease in interest rates may adversely impact earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis.

The Company quantifies its interest-rate risk exposure using a sophisticated simulation model. Simulation analysis is used to measure the exposure of net interest income to changes in interest rates over a specific time horizon. Simulation analysis involves projecting future interest income and expense under various rate scenarios. The simulation is based on forecasted cash flows and assumptions of management about the future changes in interest rates and levels of activity (loan originations, loan prepayments, deposit flows, etc). The assumptions are inherently uncertain and, therefore, actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and strategies. The net interest income projection resulting from use of forecasted cash flows and management's assumptions is compared to net interest income projections based on an immediate shift of 300 basis points upward and 150 basis points downward. Internal guidelines on interest rate risk state that for every 100 basis points immediate shift in interest rates, estimated net interest income over the next twelve months should decline by no more than 5%.

The following table indicates the estimated exposure, as a percentage of estimated net interest income, for the twelve month period following the date indicated assuming an immediate shift in interest rates as set forth below:

	September 30, 2002	Marc 2
300 basis point increase in rates.....	(7.7)%	(1
150 basis point decrease in rates.....	(0.7)%	

For each one percentage point change in net interest income in the September 2002 projections, the effect on net income would be $109,000 assuming a 36% tax rate.

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as such term is defined in Rule 13a-14(c) under the Exchange Act) as of a date within 90 days of the date of filing of this Form 10-Q. Based upon such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files under the Exchange Act is gathered, analyzed and disclosed with adequate timeliness.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation described above.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and each of its directors were named as defendants in a suit filed on October 1, 2002 by Richard Lashley and PL Capital, LLC in the U.S. District Court for the District of Massachusetts. The suit alleges that the adjournment of the 2002 Annual Meeting of Stockholders until October 11, 2002 violated Massachusetts law and the Company's Bylaws and constituted a breach of fiduciary duty by the defendant directors. The suit seeks declaratory relief and the issuance of a temporary restraining order and preliminary injunction. On October 8, 2002, the Court declined to issue a temporary restraining order and denied injunctive relief. The Company has moved for dismissal of the suit as moot. On November 12, 2002, the plaintiffs responded to the Company's motion for dismissal by amending their complaint to allege breaches of fiduciary duty by the directors for their failure to elect PL Capital's nominees to the Board of the Company's principal subsidiary, Central Co-operative Bank, their alleged failure to conduct a reasonable investigation into the sale of the Company, and their alleged consenting to the reimbursement of legal fees of Joseph and John Doherty and to allege unfair and deceptive trade practices within the meaning of chapter 93A of the Massachusetts General Laws. The Company believes that the plaintiff's claims are without merit and intends to vigorously defend against them.

See Note 5 of the Notes to Unaudited Consolidated Financial Statements presented elsewhere herein.

Item 2. Changes in Securities and Use of Proceeds
Not Applicable

Item 3. Defaults upon Senior Securities
Not Applicable

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

On September 30, 2002, the Registrant convened its Annual Meeting of Stockholders. The only item submitted to a vote of stockholders was the election of three directors. Paul E. Bulman, Garrett Goodbody and Richard Fates were elected directors and the terms of office of the following directors continued after the meeting: Joseph R. Doherty, John D. Doherty, Nancy D. Neri, Gregory W. Boulos and Terence Kenney. The following is a record of the voting in the election of directors:

ELECTION OF DIRECTORS	FOR	WITHHELD
Marat E. Santini	702,922.349	3,843.070
John F. Gilgun, Jr.	702,864.479	3,843.070
Paul E. Bulman	1,511,028.951	5,843.070
Garrett Goodbody	810,937.252	2,000
Richard Fates	810,937.252	2,000

There were no abstentions or broker non-votes.

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits
99.1 Certification under Section 906 of Sarbanes-Oxley Act of 2002
(b) Reports on Form 8-K
On July 15, 2002, the Registrant filed a Form 8-K reporting its earnings for the quarter ended June 30, 2002 under Item 5.
On October 10, 2002, the Registrant filed a Form 8-K reporting the increase in its quarterly cash dividend to $0.12 per share.

SIGNATURES

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

CENTRAL BANCORP, INC.

Registrant

November 14, 2002	/s/ John D. Doherty
Date	John D. Doherty President and Chief Executive Officer

November 14, 2002	/s/ Michael K. Devlin
Date	Michael K. Devlin Senior Vice President, Treasurer and Chief Financial Officer

CERTIFICATION

I, John D. Doherty, President and Chief Executive Officer of Central Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Central Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within these entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our

most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board or directors (or persons fulfilling the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ John D. Doherty

John D. Doherty
President and Chief Executive Officer

CERTIFICATION

I, Michael K. Devlin, Senior Vice President, Treasurer and Chief Financial Officer of Central Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Central Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within these entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board or directors (or persons fulfilling the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Michael K. Devlin

Michael K. Devlin
Senior Vice President, Treasurer and
Chief Financial Officer