CENTRAL BANCORP INC /MA/
Form 10-Q
November 15, 2004
1

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number: 0-25251

CENTRAL BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

MASSACHUSETTS	04-3447594
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

399 HIGHLAND AVENUE
SOMERVILLE, MASSACHUSETTS 02144
(Address of Principal Executive Offices) (Zip Code)

(617) 628-4000
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes No X

Class	Outstanding at November 10, 2004
Common Stock, $1.00 par value	1,588,598

2

CENTRAL BANCORP, INC.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Consolidated Statements of Financial Condition at September 30, 2004 and March 31, 2004

Consolidated Statements of Income for the three and six months ended September 30, 2004 and 2003

Consolidated Statements of Changes in Stockholders' Equity for the six months ended September 30, 2004

Consolidated Statements of Cash Flows for the six months ended September 30, 2004 and 2003

Notes to Unaudited Consolidated Financial Statements

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

Liquidity and Capital Resources

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 3. Defaults upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits

SIGNATURES

3

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(Dollars in Thousands)	September 30, 2004
ASSETS	
Cash and due from banks	$ 5,737
Short-term investments	17,561
Cash and cash equivalents	23,298
Certificate of deposit	1,223
Investment securities available for sale (amortized cost of $105,331 at September 30, 2004 and $80,201 at March 31, 2004)	107,604
Stock in Federal Home Loan Bank of Boston, at cost	8,300
The Co-operative Central Bank Reserve Fund	1,576
Total investments	117,480
Loans held for sale	1,182
Loans (Note 2)	357,124
Less allowance for loan losses	3,606
Net loans	353,518
Accrued interest receivable	2,333
Banking premises and equipment, net	2,300
Deferred tax asset, net	341
Goodwill, net	2,232
Other assets	1,092
Total assets	$ 504,999
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits (Note 3)	$ 316,310
Short-term borrowings	651
Federal Home Loan Bank advances	138,100
Subordinated debenture (Note 4)	5,258
ESOP Loan	3,116
Advance payments by borrowers for taxes and insurance	1,317
Accrued expenses and other liabilities	1,913
Total liabilities	466,665
Commitments and Contingencies (Note 6)	
Stockholders' equity (Note 7):	
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; 2,031,026 shares issued at September 30, 2004 and 2,030,251 shares issued at March 31, 2004	2,031
Additional paid-in capital	12,989
Retained income	37,442
Treasury stock (442,428 shares at September 30, 2004 and 365,294 issued at March 31, 2004), at cost	(9,904)
Accumulated other comprehensive income (Note 5)	1,474
Unearned compensation - ESOP	(5,698)

Total stockholders' equity	38,334
Total liabilities and stockholders' equity	$ 504,999

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months End September 30
	2004
Interest and dividend income:	
Mortgage loans	$ 5,457
Other loans	92
Short-term investments	56
Investments	1,321
Total interest and dividend income	6,926
Interest expense:	
Deposits	1,216
Advances from Federal Home Loan Bank of Boston	1,713
Other borrowings	51
Total interest expense	2,980
Net interest and dividend income	3,946
Provision for loan losses	--
Net interest and dividend income after provision for loan losses	3,946
Non-interest income:	
Deposit service charges	146
Net gains (losses) from sales of investment securities	214
Gain on sales of loans	56
Other income	83
Total non-interest income	499
Non-interest expenses:	
Salaries and employee benefits	1,960
Occupancy and equipment	303
Data processing service fees	277
Professional fees	341
Advertising and marketing	265
Other expenses	465
Total non-interest expenses	3,611

Income before income taxes	834	
Provision for income taxes (Note 6)	328	
Net income	$ 506	$
Earnings per common share - basic (Note 8)	$ .33	$
Earnings per common share - diluted (Note 8)	$ .33	$
Weighted average common shares outstanding - basic	1,538	
Weighted average common and equivalent shares outstanding - diluted	1,550	

See accompanying notes to unaudited consolidated financial statements.

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

(In Thousands)	Common Stock	Additional Paid-In Capital	Retained Income	Treasury Stock	Accumulate Other Comprehensi Income
Six Months Ended September 30, 2004					
Balance at March 31, 2004	$ 2,030	$ 12,920	$ 36,855	$ (7,311)	$ 2,293
Net income	--	--	960	--	--
Other comprehensive income net of tax:					
Unrealized loss on securities, net of reclassification adjustment	--	--	--	--	(819)
Comprehensive income					
Purchase of shares by ESOP (77,134 shares)	--	--	--	--	--
Proceeds from exercise of stock options (775 shares)	1	15	--	--	--
Tax benefit of stock option	--	3	--	--	--
Director deferred compensation transactions	--	33	--	(28)	--
Dividends paid ($0.24 per share)	--	--	(373)	--	--
Amortization of unearned compensation - ESOP	--	18	--	--	--
Purchase of treasury stock (77,134 shares)	--	--	--	(2,565)	--
Balance at September 30, 2004	$ 2,031	$ 12,989	$ 37,442	$ (9,904)	$ 1,474

See accompanying notes to unaudited consolidate financial statements.

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

(In thousands)	Six Month Septembe 2004
Cash flows from operating activities:	
Net income	$ 960
Adjustments to reconcile net income to net cash provided by (used in) operating activities	
Depreciation and amortization	189
Amortization of premiums	95
Provision for loan losses	50
Stock-based compensation	218
Net (gains) losses from sales of investment securities	(348)
Gain on sales of loans held for sale	(119)
Originations of loans held for sale	(9,678)
Proceeds from sale of loans originated for sale	9,414
(Increase) decrease in accrued interest receivable	(130)
Decrease (increase) in other assets, net	300
Increase (decrease) in advance payments by borrowers for taxes and insurance	135
Increase (decrease) in accrued expenses and other liabilities, net	(143)
Net cash provided by (used in) operating activities	943
Cash flows from investing activities:	
(Increase) decrease in loans	(480)
Principal payments on mortgage-backed securities	3,642
Proceeds from sales of investment securities	5,485
Purchases of investment securities	(36,499)
Maturities and calls of investment securities	2,495
Increase (decrease)in due to brokers	(3,029)
Purchase of banking premises and equipment	(376)
Net cash provided by (used in) investing activities	(28,762)
Cash flows from financing activities:	
Increase (decrease) in deposits	20,390
Repayment of advances from FHLB of Boston	(3,000)
Increase (decrease) in short-term borrowings	(194)
Issuance of subordinated debenture	5,258
Repayment of ESOP loan	(195)
Purchase of shares by ESOP	(2,565)
Proceeds from exercise of stock options	19
Dividends paid, net	(373)
Net directors deferred compensation	5
Purchase of treasury stock	(2,565)
Net cash provided by (used in) financing activities	16,780

Net increase (decrease) in cash and cash equivalents	(11,039)
Cash and cash equivalents at beginning of year	34,337
Cash and cash equivalents at end of period	$ 23,298

Supplemental disclosure of cash flow information: Cash paid during the period for:	
Interest	$ 5,878
Income taxes	$ 264

See accompanying notes to unaudited consolidated financial statements.

CENTRAL BANCORP, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

(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, 2004, 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 owns 100% of the common stock of Central Bancorp Capital Trust I (the "Trust") which has issued trust preferred securities to the public. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51", as revised by FIN No. 46R ("FIN 46R") issued in December 2002, the Trust is not included in the Company's consolidated financial statements.

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, 2004. For interim reporting purposes, the Company follows the same significant accounting policies.

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, excluding loans held for sale, as of September 30, 2004 and March 31, 2004 are summarized below (in thousands):

	September 30, 2004	March 2004
Real estate loans:		

Residential real estate	$ 163,593	$ 171,6
Commercial real estate	165,039	146,1
Construction	13,503	25,1
Home equity lines of credit	8,835	9,3
Total real estate loans	350,970	352,2
Commercial loans	5,148	3,1
Consumer loans	1,006	1,1
Total loans	357,124	356,6
Less: allowance for loan losses	(3,606)	(3,5
Total loans, net	$ 353,518	$ 353,0

There were no non-accrual loans at September 30, 2004 and March 31, 2004.

CENTRAL BANCORP, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

(3) DEPOSITS

Deposits at September 30, 2004 and March 31, 2004 are summarized as follows (in thousands):

	September 30, 2004	March 31 2004
Demand deposit accounts	$ 32,569	$ 27,881
NOW accounts	34,122	37,106
Passbook and other savings accounts	74,694	73,737
Money market deposit accounts	63,514	56,084
Total non certificate accounts	204,899	194,808
Term deposit certificates		
Certificates of $100,000 and above	35,140	27,607
Certificates less than $100,000	76,271	73,505
Total term deposit certificates	111,411	101,112
Total deposits	$ 316,310	$ 295,920

(4) SUBORDINATED DEBENTURE

On September 16, 2004, Central Bancorp, Inc. (the "Company") completed a trust preferred securities financing in the amount of $5.1 million. In the transaction, the Company formed a Delaware statutory trust, known as Central Bancorp Capital Trust I (the "Trust"). The Trust issued and sold $5.1 million of trust preferred securities in a private placement and issued $158,000 of trust common securities to the Company. The Trust used the proceeds of these issuances to purchase $5,258,000 of the Company's floating rate junior subordinated debentures due September 16, 2034 (the "Debentures"). The interest rate on the Debentures and the trust preferred securities is variable and adjustable

quarterly at 2.44% over three-month LIBOR. At September 30, 2004 the interest rate was 4.34%. The Debentures are the sole assets of the Trust and are subordinate to all of the Company's existing and future obligations for borrowed money. The trust preferred securities generally rank equal to the trust common securities in priority of payment, but will rank prior to the trust common securities if and so long as the Company fails to make principal or interest payments on the Debentures. Concurrently with the issuance of the Debentures and the trust preferred securities, the Company issued a guarantee related to the trust securities for the benefit of the holders.

On September 17, 2004, the Company completed the repurchase of 77,134 shares of its outstanding common stock, reducing the Company's outstanding common stock to 1,588,598 shares. In addition, the Central Co-operative Bank Employee Stock Ownership Trust (the "ESOP") completed the purchase of 77,134 share of the Company's common stock. The Company and the ESOP purchased the shares pursuant to the terms of the Stock Purchase Agreement, dated September 13, 2004, by and among the Company and the ESOP and PL Capital, LLC, Financial Edge Fund, L.P., Financial Edge-Strategic Fund, L.P., Goodbody/PL Capital, L.P., Goodbody/PL Capital, LLC, Richard Lashley, John W. Palmer and Richard J. Fates.

(5) OTHER COMPREHENSIVE INCOME (LOSS)

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 for the six months ended September 30, 2004 and 2003 are as follows (in thousands):

	For the Six Months Ended September 30, 2004		
	Before-Tax Amount	Tax Effect	After-Tax Amount
Unrealized gains on securities:			
Unrealized net holding losses during period	$ (949)	$ (352)	$ (597)
Add: reclassification adjustment for net gains included in net income	(348)	(126)	(222)
Other comprehensive loss	$(1,297)	$ (478)	$ (819)

	For the Six Months Ended September 30, 2003		
	Before-Tax Amount	Tax Effect	After-Tax Amount
Unrealized gains on securities:			
Unrealized net holding gains during period	$ 1,427	$ 458	$ 969
Add: reclassification adjustment for net losses included in net income	135	46	89

Other comprehensive income	$ 1,562	$ 504	$1,058

(6) CONTINGENCIES

LEGAL PROCEEDINGS

The Company from time to time is involved as plaintiff or defendant in various legal actions incident to its business. None of these actions are believed to be material, either individually or collectively, to the results of operations and financial condition of the Company.

TAX SETTLEMENT

During 2003, the Massachusetts Department of Revenue ("DOR") issued notices of intent to assess additional state excise taxes to numerous financial institutions in Massachusetts that had received dividends from a real estate investment trust (REIT) subsidiary. The DOR contended that dividends received by the banks from such subsidiaries were fully taxable in Massachusetts.

In June 2003, a settlement of this matter was reached between the DOR and the majority of affected financial institutions. The settlement provided that 50% of all dividends received from REIT subsidiaries from 1999 through 2002 were subject to state taxation. Interest on such additional taxes was also assessed. Payment of such taxes and interest totaling $431,000 was made in June 2003. As a result of this settlement, the Company recognized a recovery of $374,000 in income taxes, which increased net income by the same amount in the quarter ended June 30, 2003.

(7) SUBSEQUENT EVENT

On October 21, 2004, the Board of Directors voted the payment of a quarterly cash dividend of $0.12 per share. The dividend is payable on November 19, 2004 to stockholders of record on November 5, 2004.

(8) EARNINGS PER SHARE (EPS)

Unallocated ESOP shares are not treated as being outstanding in the computation of either basic or diluted EPS. At September 30, 2004 and March 31, 2004, there were approximately 178,000 and 107,000 unallocated ESOP shares, respectively.

(9) RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB issued Interpretation No. 46R "Consolidation of Variable Interest Entities ? An Interpretation of ARB No. 51, "to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. Until now, a company generally has included another entity in its combined financial statements only if it controlled the entity through voting interests. FIN 46R changes that guidance by requiring a variable interest entity, as defined, to be combined by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN 46R also requires disclosure about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. Application of FIN 46R is required in financial statements for periods ending after March 15, 2004. The adoption did not have a material impact on the Company's results of operations or financial position.

In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 105. SAB No. 105 summarizes the views of the SEC regarding the application of Generally Accepted Accounting Principles ("GAAP") to loan commitments for mortgage loans that will be held for sale accounted for as derivatives. The guidance requires the measurement at fair value of such loan commitments include only the differences between the guaranteed interest rate in the loan commitment and a market interest rate; future cash flows related to servicing the loan or the customer relationship should not be recorded as a part of the loan commitment derivative. SAB No. 105 is effective for said loan commitments accounted for as derivatives entered into beginning April 1, 2004. The Bank adopted this SAB on April 1, 2004. The adoption of SAB No. 105 did not have an impact on the Company as the Company was valuing loan commitments to be accounted for as derivatives consistent with this guidance.

In June 2004, the FASB's Emerging Issues Task Force ("EITF") issued EITF Issue 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 contains new guidance on other-than-temporary impairments of investment securities. The guidance dictates when impairment is deemed to exist, provides guidance on determining if impairment is other than temporary, and directs how to calculate impairment loss. Issue 03-1 also details expanded annual disclosure rules. In September 2004, the FASB issued FASB staff position FSP EITF 03-1-1 which delayed the effective date of the new guidance on recognizing other-than-temporary impairments indefinitely. The Company will evaluate the impact of EITF 03-1 on the Company's financial position and results of operations upon the issuance of FSB EITF 03-1-a.

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.

CRITICAL ACCOUNTING POLICIES

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact income, are considered critical accounting policies. The Company considers the allowance for loan losses to be its critical accounting policy.

There have been no significant changes in the methods or assumptions used in the accounting policies that require material estimates and assumptions.

Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The ongoing evaluation process includes a formal analysis of the allowance each quarter, which considers, among other factors, the character and size of the loan portfolio, business and economic conditions, loan growth, delinquency trends, nonperforming loans trends, charge-off experience and other asset quality factors. The Company evaluates specific loan status reports on certain commercial and commercial real estate loans rated "substandard" or worse in excess of a specified dollar amount. Estimated reserves for each of these credits is determined by reviewing current collateral value, financial information, cash flow, payment history and trends and other relevant facts surrounding the particular credit. Provisions for losses on the remaining commercial and commercial real estate loans are based on pools of similar loans using a combination of historical loss experience and qualitative adjustments. For the residential real estate and consumer loan portfolios, the range of reserves is calculated by applying historical charge-off and recovery experience to the current outstanding balance in each loan category. Although management uses available information to establish the appropriate level of the allowance for loan losses, future additions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2004 AND MARCH 31, 2004

Total assets increased by $14.1 million from $490.9 million at March 31, 2004 to $505.0 million at September 30, 2004. During the quarter ended September 30, 2004, loans (excluding loans held for sale) increased by $0.5 million due primarily to an $18.9 million increase in commercial real estate loans and a $2.0 million increase in commercial loans, partially offset by a $8.1 million decrease in residential mortgage loans and a $11.6 million decrease in construction loans. During the current quarter, prepayments of residential mortgage loans were significant amounting to $20.8 million. Management regularly assesses the desirability of holding newly originated long-term fixed-rate residential mortgage loans in portfolio or selling such loans in the secondary market. A number of factors are evaluated to determine whether or not to hold such loans in portfolio including, current and projected liquidity, current and projected interest rates, projected growth in other interest-earning assets and the current and projected interest rate risk profile. Based on its consideration of these factors, management determined that most fixed-rate residential mortgage loans originated during the current quarter should be sold in the secondary market.

The Company experienced growth of $10.1 million in core deposits and $10.3 million in term deposits resulting in an increase in total deposits of $20.4 million. The growth in core deposits was principally related to the increase of $7.4 million in money market deposit accounts. Because of the continuation of the low interest rates for deposits in recent years and the tiered pricing used with this type of account, money market accounts have attracted large average balances. The growth in core deposits was also aided by growth in most other types of accounts. The Company began a major marketing initiative in March 2004 to promote a new free checking account product which contributed to this growth.

The decrease in Stockholders' equity of $5.1 million to $38.3 million at September 30, 2004 was primarily attributable to the previously announced purchase of 77,134 shares of common stock by the Company and an equal number of shares purchased by the Central Cooperative Bank Employee Stock Ownership Trust (the "ESOP") for a total of $5.1 million. The Company and the ESOP purchased the shares pursuant to the terms of the Stock Purchase Agreement, dated September 13, 2004, by and among the Registrant and the ESOP and PL Capital, LLC, Financial Edge Fund, L.P., Financial Edge-Strategic Fund, L.P., Goodbody/PL Capital, L.P., Goodbody/PL Capital, LLC, Richard Lashley, John W. Palmer and

Richard J. Fates. At the same tine, the Company received the proceeds from the issuance of $5.1 million of trust preferred securities which are included in capital for regulatory purposes and shown separately in the liability section of the balance sheet.

COMPARISON OF OPERATING RESULTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2004 AND 2003

Net income decreased by $324 thousand to $506 thousand for the quarter ended September 30, 2004, compared to the same quarter in the prior year. The current quarter's results included costs of $178,700, net of taxes, consisting primarily of legal and other professional fees incurred in connection with the previously announced buyback of 154,268 shares of Company stock from PL Capital LLC and affiliates by the Company and its ESOP Trust. Included in net income in the prior year quarter, was an insurance recovery of $214,000, net of the related legal fees and taxes, attributable to the dispute with certain shareholders, which was settled during the quarter. Exclusive of the foregoing significant items, pro forma earnings increased $69 thousand compared to the corresponding quarter in the prior year. This increase was primarily attributable to an increase in net interest income and gains on sales of investments, partly offset by increases in salaries and benefits, data processing and advertising and marketing expenses.

The Company's net interest margin decreased 19 basis points from 3.39% in the prior year quarter to 3.20% in the current quarter. The unfavorable trend in the net interest margin is primarily reflective of the limitations the Company has in reducing its overall cost of funds. This limitation is due to two factors. First, the Company's utilization of long-term FHLB advances, which represented 33% of average interest-bearing liabilities in the current quarter, has provided for limited repricing opportunities during the period of declining rates. These advances cannot be prepaid without a substantial penalty, which management has elected not to pay. Second, the ability to reduce deposit rates continues to be limited after the past several years of rate reductions as well as competitive market factors.

The reduction in the net interest margin is also partially attributable to the shift in the mix of interest-earning assets from loans to short-term investments and investment securities. During the current quarter, loans represented 80% of the average balance of total interest-earning assets compared to 87% in the prior year quarter. This shift to shorter-term, lower yielding assets results from the Company's decision to sell most long-term fixed-rate residential mortgages loans originated during the past two years due to the historically low rates which existed during much of this period.

INTEREST INCOME. Interest income for the quarter ended September 30, 2004 was $6.9 million compared to $6.8 million in the prior year quarter. Although the yield on interest-earning assets decreased from 5.89% in the quarter ended September 30, 2003 to 5.61% in the current quarter, average interest earning assets increased by $31.1 million.

INTEREST EXPENSE. Interest expense for the quarter ended September 30, 2004 increased by $105 thousand to $3.0 million compared to the quarter ended September 30, 2003. A decrease of 8 basis points in the cost of funds from 2.87% in the quarter ended September 30, 2003 to 2.79% in the quarter ended September 30, 2004 was offset by an increase in average interest-bearing liabilities of $27.4 million in the current year period.

The following table presents average balances and average rates earned/paid by the Company for the quarter ended September 30, 2004 compared to the quarter ended September 30, 2003:

	THREE MONTHS ENDED SEPT			
	2004			
	AVERAGE BALANCE	INTEREST	AVERAGE RATE	AVER BALA
			(DOLLARS IN THOUSAN	
Interest-earning assets:				
Mortgage loans	$ 354,393	$ 5,457	6.16%	$ 364
Other loans	5,812	92	6.33	5
Investment securities	114,955	1,321	4.60	64
Short-term investments	18,694	56	1.20	28
Total interest-earning assets	493,854	6,926	5.61	462
Allowance for loan losses	(3,618)			(3
Noninterest-earning assets	16,063			20
Total assets	$ 506,299			$ 479
Interest-bearing liabilities:				
Deposits	$ 285,017	1,216	1.71	$ 255
Advances from FHLB of Boston	138,780	1,713	4.94	144
Other borrowings	3,636	51	5.61	
Total interest-bearing liabilities	427,433	2,980	2.79	400
Noninterest-bearing liabilities	38,398			37
Total liabilities	465,831			437
Stockholders' equity	40,468			42
Total liabilities and stockholders' equity	$ 506,299			$ 479
Net interest and dividend income		$ 3,946		
Net interest spread			2.82%	
Net interest margin			3.20%	

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 probable losses based on an evaluation of known and inherent risks in the portfolio. 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.

During the quarter ended September 30, 2004 and 2003, the Company provided $0 and $50 thousand for loan losses. The Company's asset quality, as

measured principally by delinquency rates, charge-offs and loan classifications, continues to be outstanding.

NON-INTEREST INCOME. Total non-interest income was $499 thousand for the quarter ended September 30, 2004 compared to $163 thousand in the same period of 2003. The primary reason for the $336 thousand increase in the current year was the gain on sales of securities which amounted to $214 thousand. This additional non-interest income was partially offset by a decline in loan sale gains of $12 thousand in the current quarter. Overall, residential loan origination activity has declined in the current quarter compared to the same quarter last year, especially fixed rate loan originations, resulting in fewer loans being sold.

NON-INTEREST EXPENSES. Non-interest expenses increased $855 thousand, or 31%, during the quarter ended September 30, 2004 as compared to the same quarter in 2003 due principally to increases in professional fees ($458 thousand), salaries and employee benefits ($237 thousand) and other non-interest expenses ($160 thousand).

The increase in salaries and employee benefits of $237 thousand, or 14%, during the quarter ended September 30, 2004, was due to overall salary increases, increases in staffing, as well as increases in pension and health care costs.

Professional fees increased $458 thousand during the current quarter due to the costs associated with the previously discussed buyback of 154,268 shares by the Company and the ESOP and the recognition of a partial reimbursement of legal defense costs from the Company's insurance carrier in the prior year quarter. The legal defense costs were incurred in connection with shareholder litigation, which was settled in August 2003.

Advertising and marketing expenses increased $139 thousand as a result of the kick-off of a fall deposit promotion during the current quarter.

INCOME TAXES. The effective tax rates for the quarters ended September 30, 2004 and 2003 were 40% and 36%, respectively.

COMPARISON OF OPERATING RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

For the six months ended September 30, 2004, net income decreased 55% to $960 thousand, or $.61 per diluted share, compared to $2,118 million, or $1.36 per diluted share, in the year earlier period. Exclusive of the favorable impact of $374,000, after-taxes, resulting from the settlement of the Company's REIT-related tax liability with the Massachusetts Department of Revenue and the favorable impact of a net insurance recovery associated with certain shareholder litigation, which increased net income by $276,000 in the first half of the previous year, and the costs associated with the stock buyback noted above, net income declined $329,000 compared to the year earlier period. This change was largely the result of a $397,000 decrease in net interest income between periods attributable to the factors previously disclosed herein.

INTEREST INCOME. Interest income for the six months ended September 30, 2004 was $13.5 million, or $299 thousand less than the amount earned in the same period in the prior year due to a decrease in the yield on interest-earning assets from 5.99% in the first six months of the prior year to 5.59% in the same period of the current year. Average interest-earning assets increased by $22.5 million, or 5%, to $484.8 million during the six months ended September 30, 2004, from $462.3 million for the six months ended September 30, 2003.

INTEREST EXPENSE. Interest expense for the six months ended September 30, 2004 was $5.9 million compared to $5.8 million for the six months ended September 30,

2003, an increase of $98,000 or 1.7%. This decrease resulted from a 10 basis points decrease in the cost of funds from 2.89% in the six months ended September 30, 2003 to 2.79% in the six months ended September 30, 2004. Average interest-bearing liabilities increased $22 million to $421.7 million from $400.1 million primarily from the promotion of a 15-month CD product.

The decrease in the cost of funds during the first half of the current year was entirely due to a reduction in the cost of deposits from 1.77% during the prior year period to 1.70% during the six months ended September 30, 2004. The cost of FHLB advances, the Company's other primary interest-bearing liability, increased during the first half of the current year to 4.89% from 4.88% in the comparable prior year period. As FHLB advances can not be prepaid without a substantial penalty, these longer term, fixed-rate borrowings have been a significant factor in the compression of the Company's net interest margin during the most recent period of declining rates.

The following table presents average balances and average rates earned/paid by the Company for the six months ended September 30, 2004 compared to the six months ended September 30, 2003:

	SIX MONTHS ENDED SEP			
	2004			
	AVERAGE BALANCE	INTEREST	AVERAGE RATE	AVER BALA
			(DOLLARS IN THOUSAN	
Interest-earning assets:				
Mortgage loans	$ 353,660	$ 10,839	6.13%	$ 372
Other loans	5,417	171	6.31	6
Investment securities	102,900	2,410	4.68	66
Short-term investments	22,526	120	1.07	16
Total interest-earning assets	484,803	13,540	5.59	462
Allowance for loan losses	(3,618)			(3
Noninterest-earning assets	18,508			18
Total assets	$ 499,693			$ 477
Interest-bearing liabilities:				
Deposits	$ 277,950	2,366	1.70	$ 255
Advances from FHLB of Boston	140,294	3,431	4.89	144
Other borrowings	3,469	90	5.19	
Total interest-bearing liabilities	421,713	5,887	2.79	400
Noninterest-bearing liabilities	36,517			36
Total liabilities	458,230			436
Stockholders' equity	41,463			41
Total liabilities and stockholders' equity	$ 499,693			$ 477

Net interest and dividend income	$ 7,653	
Net interest spread		2.80%
Net interest margin		3.16%

PROVISION FOR LOAN LOSSES. During the first half of the current year, the Company provided $50,000 for loan losses. While the Company's asset quality, as measured principally by delinquency rates, charge-offs and loan classifications, continues to be outstanding, the shifting of the mix of the loan portfolio to a greater portion of commercial real estate loans indicated the need for an increase in the reserve for loan losses in the first quarter. $100,000 was recorded in the corresponding period of the prior year.

NON-INTEREST INCOME. Non-interest income increased to $947,000 during the six months ended September 30, 2004 from $577,000 in the prior year period. An increase in gains on sales of investment securities of $483,000 was partially offset by a decline in gains on the sale of loans of $90,000 caused by the slow down in refinance activity this year.

Net gains from sales and write-downs of investment securities were $348,000 for the six months ended September 30, 2004 compared to net losses of $135,000 in the comparable prior year period. During the six months ended September 30, 2004 and 2003, the Company recorded write-downs of $-0- and $130,000, respectively, 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 $1,246,000 during the six months ended September 30, 2004, as compared to the corresponding period in the prior year. Exclusive of the impact of litigation and legal fees, net of the related insurance recovery in fiscal 2003 and costs associated with the repurchase of common stock during the current fiscal year, non-interest expenses increased $624,000, due principally to increases in salaries and employee benefits of $340,000 and increased advertising costs of $156,000.

The increase in salaries and employee benefits of $340,000, or 10%, during the six months ended September 30, 2004, was due to overall salary increases, increases in staffing to support a larger asset base, as well as increases in health insurance and pension expense.

INCOME TAXES. The effective tax rates for the six months ended September 30, 2004 and 2003 were 38% and 23.5%, respectively. As previously noted, the Company recovered $374,000 in taxes during the first half of the current year as a result of the settlement of the REIT tax dispute with the Massachusetts Department of Revenue. Exclusive of this item, the effective tax rate for the six months ended September 30, 2003 was 37.0%. This increase from the prior year is entirely due to the change in state tax law eliminating the use of the dividends received deduction on dividends received by a bank from its REIT subsidiary.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of liquidity are customer deposits, short-term investments, loan repayments, advances from the 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, mortgage-backed securities and funds on deposit at the FHLB of Boston. At September 30, 2004, the Company had approximately $30 million in unused borrowing capacity at the FHLB of Boston.

At September 30, 2004, the Company had commitments to originate loans, unused outstanding lines of credit and undisbursed proceeds of loans totaling $67.2 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.

The Company's and the Bank's capital ratios at September 30, 2004 were as follows:

	Company	Bank
Tier 1 Capital (to average assets)	7.88%	7.1
Tier 1 Capital (to risk-weighted assets)	11.54	10.4
Total Capital (to risk-weighted assets)	12.58	11.5

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 both actual and 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 actual and

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 75 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 (dollars in thousands):

	September 30, 2004		
	Amount	% Change	Amou
300 basis point increase in rates	$(1,631)	(10.2)%	$ (1
75 basis point decrease in rates.....	--	--	
100 basis point decrease in rates.....	133	0.8%	

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, management of the Company carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

In addition, there have been no changes in the Company's internal control over financial reporting (to the extent that elements of internal control over financial reporting are subsumed within disclosure controls and procedures) identified in connection with the evaluation described in the above paragraph that occurred during the Company's last fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

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

The following table sets forth information regarding the Company's

repurchases of its Common Stock during the quarter ended September 30, 2004.

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	NUMB THA PUR TH
July 2004				
Beginning date: July 1	--	$ --	--	
Ending date: July 31				
August 2004				
Beginning date: August 1	--	--	--	
Ending date: August 31				
September 2004				
Beginning date: September 1	77,134(1)	33.25	--	
Ending date: September 30				

(1) All shares were purchased at a price of $33.25 per share in a negotiated transaction pursuant to a Stock Purchase Agreement with PL Capital LLC, Financial Edge Fund, L.P., Financial Edge-Strategic Fund, L.P., Goodbody/PL Capital, L.P., Goodbody/PL Capital, LLC, Richard Lashley, John W. Palmer and Richard J. Fates.

Item 3. Defaults upon Senior Securities

Not Applicable

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

On September 20, 2004, the Registrant convened its Annual Meeting of Stockholders. The only item submitted to a vote of stockholders was the election of three directors. Gregory W. Boulos, John D. Doherty and Albert J. Mercuri, Jr. were elected directors and the terms of office of the following directors continued after the meeting: Joseph R. Doherty, Paul E. Bulman, Edward F. Sweeney, Jr., John J. Morrissey and James F. Linnehan. The following is a record of the voting in the election of directors:

ELECTION OF DIRECTORS	FOR	WITHHELD
Gregory W. Boulos	1,257,947	339,454
John D. Doherty	1,257,283	340,118
Albert J. Mercuri, Jr.	1,257,947	339,454

There were no abstentions or broker non-votes.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

4.1	Indenture, dated September 16, 2004, between Central Bancorp, Inc. and JP
4.2	Form of Junior Subordinated Debt Security Due 2034 (filed as Exhibit A to
10.1	Guarantee Agreement, dated September 16, 2004, by Central Bancorp, benefit of JP Morgan Chase Bank, as trustee
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification

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 15, 2004
Date

/s/ John D. Doherty

John D. Doherty
Chairman, President and Chief Executive Officer

November 15, 2004
Date

/s/ Paul S. Feeley

Paul S. Feeley
Senior Vice President, Treasurer
and Chief Financial Officer