CENTRAL FEDERAL CORP
Form 10QSB
May 16, 2005

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

# FORM 10-QSB

(Mark one)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to______________

Commission File Number 0-25045

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

| | |
|---|---|
| Delaware | 34-1877137 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

2923 Smith Road, Fairlawn, Ohio 44333
(Address of principal executive offices)

(330) 666-7979
(Issuer's telephone number)

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(Former name, former address and former fiscal year, if changed since last report)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

| Class: | Outstanding at April 29, 2005 |
|---|---|
| Common stock, $0.01 par value | 2,225,987 shares |

Transitional Small Business Disclosure Format (check one) Yes [ ] No [X]

CENTRAL FEDERAL CORPORATION
FORM 10-QSB
QUARTER ENDED MARCH 31, 2005
INDEX



CENTRAL FEDERAL CORPORATION
PART I. Financial Information
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share data)

| | March 31, 2005 | December 3 |
|---|---|---|
| | (unaudited) | |
| ASSETS | | |
| Cash and cash equivalents | $ 3,346 | $ 32, |
| Securities available for sale | 15,732 | 13, |
| Loans, net of allowance of $1,110 and $978 | 116,546 | 108, |
| Federal Home Loan Bank stock | 3,820 | 3, |
| Loan servicing rights | 198 | |
| Foreclosed assets, net | 112 | |
| Premises and equipment, net | 2,611 | 2, |
| Goodwill | 1,749 | 1, |
| Other intangible assets | 268 | |
| Bank owned life insurance | 3,435 | 3, |
| Loan sales proceeds receivable | 2,243 | 1, |
| Deferred tax asset | 1,772 | 1, |
| Accrued interest receivable and other assets | 1,029 | 1, |
| | $ 152,861 | $ 171, |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Non-interest bearing | $ 6,078 | $ 5, |
| Interest bearing | 104,555 | 96, |
| Total deposits | 110,633 | 101, |
| Federal Home Loan Bank advances | 15,895 | 41, |
| Other borrowings | - | 2, |
| Advances by borrowers for taxes and insurance | 199 | |
| Accrued interest payable and other liabilities | 1,580 | |
| Subordinated debentures | 5,155 | 5, |
| Total liabilities | 133,462 | 151, |
| Shareholders' equity | | |
| Preferred stock, 1,000,000 shares authorized; none issued | - | |
| Common stock, $.01 par value; 6,000,000 shares authorized; 2,294,520 shares issued | 23 | |
| Additional paid-in capital | 12,608 | 12, |
| Retained earnings | 7,922 | 8, |
| Accumulated other comprehensive income | (79) | |
| Unearned stock based incentive plan shares | (291) | ( |
| Treasury stock, at cost (2005 - 68,533 shares, 2004 - 108,671 shares) | (784) | (1, |
| Total shareholders' equity | 19,399 | 19, |
| | $ 152,861 | $ 171, |

See accompanying notes to consolidated financial statements.



CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands except per share data)
(Unaudited)

| | Three months ended March 31, 2005 | Three months ended March 31, 2004 |
|---|---|---|
| Interest and dividend income | | |
| Loans, including fees | $ 1,675 | $ 97 |
| Taxable securities | 143 | 22 |
| Tax exempt securities | - | 1 |
| Federal Home Loan Bank stock dividends | 42 | 3 |
| Federal funds sold and other | 78 | 2 |
| | 1,938 | 1,27 |
| Interest expense | | |
| Deposits | 535 | 32 |
| Federal Home Loan Bank advances and other debt | 164 | 2 |
| Subordinated debentures | 70 | 5 |
| | 769 | 40 |
| Net interest income | 1,169 | 87 |
| Provision for loan losses | 218 | 3 |
| Net interest income after provision for loan losses | 951 | 83 |
| Noninterest income | | |
| Service charges on deposit accounts | 41 | 3 |
| Net gains on sales of loans | 211 | 1 |
| Loan servicing fees, net | 7 | |
| Earnings on bank owned life insurance | 34 | 3 |
| Other | 6 | |
| | 299 | 9 |
| Noninterest expense | | |
| Salaries and employee benefits | 907 | 72 |
| Occupancy and equipment | 113 | 5 |
| Data processing | 124 | 11 |
| Franchise taxes | 52 | 5 |

| | | |
|---|---|---|
| Professional fees | 96 | 6 |
| Director fees | 39 | 4 |
| Postage, printing and supplies | 62 | 3 |
| Advertising and promotion | 43 | 1 |
| Telephone | 36 | 2 |
| Loan expenses | 9 | 1 |
| Foreclosed assets, net | 4 | |
| Depreciation | 105 | 6 |
| Amortization of intangibles | 31 | - |
| Other | 81 | 13 |
| | 1,702 | 1,35 |
| Loss before income taxes | (452) | (42 |
| Income tax benefit | (163) | (16 |
| Net loss | $ (289) | $ (26 |
| Loss per share: | | |
| Basic | $ (0.13) | $ (0.1 |
| Diluted | $ (0.13) | $ (0.1 |

See accompanying notes to consolidated financial statements.



CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands except per share data)
(Unaudited)

| | Common Stock | Paid-In Capital | Additional Retained Earnings | Accumulated Other Comprehensive Income | St |
|---|---|---|---|---|---|
| Balance at January 1, 2005 | $ 23 | $ 12,519 | $ 8,497 | $ 61 | $ |
| Comprehensive loss: | | | | | |
| Net loss | | | (289) | | |
| Other comprehensive loss | | | | (140) | |
| Total comprehensive loss | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Recognition of expense for 4,773 stock based incentive plan shares | | | | | |
| Tax benefits from stock based incentive plan shares released | | 33 | | | |
| Stock options exercised (40,138 shares) | | 2 | (86) | | |
| Tax benefits from stock options exercised | | 54 | | | |
| Cash dividends declared ($.09 per share) | | | (200) | | |
| Balance at March 31, 2005 | $ 23 | $ 12,608 | $ 7,922 | $ (79) | $ |

See accompanying notes to consolidated financial statements.



CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Dollars in thousands)
(Unaudited)

| | Three months ended March 31, | |
|---|---|---|
| | 2005 | 2004 |
| Net loss | $ (289) | $ (268) |
| Change in net unrealized gain (loss) on securities available for sale | (212) | 314 |
| Tax effect | 72 | (107) |
| Other comprehensive income (loss) | (140) | 207 |
| Comprehensive loss | $ (429) | $ (61) |

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

| | Three months ended March 31, 2005 | 2004 |
|---|---|---|
| Cash flows from operating activities | $ (768) | $ ( |
| Cash flows from investing activities | | |
| Available-for-sale securities: | | |
| Maturities, prepayments and calls | 544 | 2, |
| Purchases | (2,017) | |
| Loan originations and payments, net | (8,601) | (7, |
| Additions to premises and equipment | (26) | ( |
| Net cash from investing activities | (10,100) | (5, |
| Cash flows from financing activities | | |
| Net change in deposits | 9,007 | 1, |
| Net change in short-term borrowings from the Federal Home Loan Bank and other | (26,524) | |
| Proceeds from Federal Home Loan Bank advances and other debt | - | 8, |
| Repayments on Federal Home Loan Bank advances and other debt | (1,000) | (1, |
| Net change in advances by borrowers for taxes and insurance | (122) | ( |
| Cash dividends paid | (196) | ( |
| Proceeds from exercise of stock options | 374 | |
| Repurchase of common stock | - | ( |
| Net cash from financing activities | (18,461) | 7, |
| Net change in cash and cash equivalents | (29,329) | |
| Beginning cash and cash equivalents | 32,675 | 8, |
| Ending cash and cash equivalents | $ 3,346 | $ 9, |
| Supplemental cash flow information: | | |
| Interest paid | $ 722 | $ |
| Income taxes paid | - | |
| Supplemental noncash disclosures: | | |
| Transfers from loans to repossessed assets | $ - | $ |

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See accompanying notes to consolidated financial statements.



CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:
The accompanying consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC") and in compliance with accounting principles generally accepted in the United States of America. Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted.

In the opinion of the management of Central Federal Corporation (the "Company"), the accompanying consolidated financial statements as of March 31, 2005 and December 31, 2004 and for the three months ended March 31, 2005 and 2004 include all adjustments necessary for a fair presentation of the financial condition and the results of operations for those periods. The financial performance reported for the Company for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Company's Annual Report to Shareholders and Form 10-KSB for the period ended December 31, 2004. Reference is made to the accounting policies of the Company described in Note 1 of the Notes to Consolidated Financial Statements contained in the Company's 2004 Annual Report that was filed as Exhibit 13 to the Form 10-KSB. The Company has consistently followed those policies in preparing this Form 10-QSB.

Operating Segments:
Internal financial information is primarily reported and aggregated in two lines of business, banking and mortgage banking.

Earnings Per Share:
Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Stock based incentive plan shares are considered outstanding as they are earned over the vesting period. Diluted earnings per common share include the dilutive effect of stock based incentive plan shares and additional potential common shares issuable under stock options.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

The factors used in the loss per share computation follow.

| | Three months 2005 |
|---|---|
| **Basic** | |
| Net loss | $ (289) |
| Weighted average common shares outstanding | 2,189,716 |
| Basic loss per common share | $ (0.13) |
| **Diluted** | |
| Net loss | $ (289) |
| Weighted average common shares outstanding for basic loss per share | 2,189,716 |
| Add: Dilutive effects of assumed exercises of stock options and stock based incentive plan shares | - |
| Average shares and dilutive potential common shares | 2,189,716 |
| Diluted loss per common share | $ (0.13) |

The following potential average common shares were anti-dilutive and not considered in computing diluted loss per share because the Company had a loss from continuing operations, the exercise price of the options was greater than the average stock price for the periods or the fair value of the stock based incentive plan shares at the date of grant was greater than the average stock price for the periods.

| | Three months ended March 31, 2005 | 2004 |
|---|---|---|
| Stock options | 216,398 | 215,097 |
| Stock based incentive plan shares | 24,107 | 28,049 |

In prior periods, the Company had included stock options and stock based incentive plan shares that increased the number of outstanding shares in computing diluted loss per share. However, because the Company had a loss from continuing operations, these potential common shares were anti-dilutive and should not have been considered for the computation. As a result, the Company has revised prior period diluted loss per share amounts. The impact of this change was not material to the diluted loss per share amounts disclosed.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

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Stock Compensation:
Employee compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation.

| | Three months ended March 31, 2005 | 2004 |
|---|---|---|
| Net loss as reported | $ (289) | $ (268) |
| Deduct: Stock-based compensation expense determined under fair value based method | 45 | 56 |
| Pro forma net loss | $ (334) | $ (324) |
| Basic loss per share as reported | $ (0.13) | $ (0.13) |
| Pro forma basic loss per share | (0.15) | (0.16) |
| Diluted loss per share as reported | $ (0.13) | $ (0.13) |
| Pro forma diluted loss per share | (0.15) | (0.16) |

The pro forma effects are computed using option pricing models, using the following weighted-average assumptions as of grant date.

| | Three months ended March 31, 2004 |
|---|---|

(Dollars in thousands except per share data)

| | |
|---|---|
| Risk-free interest rate | 3.11% |
| Expected option life (years) | 6.0 years |
| Expected stock price volatility | 23% |
| Dividend yield | 2.75% |
| Weighted average fair value of options granted during the period | $ 2.56 |

Reclassifications:
Some items in the prior year period financial statements were reclassified to conform to the current presentation.

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NOTE 2 - LOANS

Loans were as follows:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Commercial | $ 9,677 | $ 7,030 |
| Real estate: | | |
| Single-family residential | 41,765 | 41,450 |
| Multi-family residential | 28,402 | 25,602 |
| Commercial | 22,308 | 20,105 |
| Construction | - | 1,127 |
| Consumer | 15,673 | 13,952 |
| Subtotal | 117,825 | 109,266 |
| Less: Net deferred loan fees | (169) | (139) |
| Allowance for loan losses | (1,110) | (978) |
| Loans, net | $ 116,546 | $ 108,149 |

Activity in the allowance for loan losses was as follows:

(Dollars in thousands except per share data)

| | Three months ended March 31, 2005 | Three months ended March 31, 2004 |
|---|---|---|
| Beginning balance | $ 978 | $ 415 |
| Provision for loan losses | 218 | 36 |
| Loans charged-off | (109) | (12) |
| Recoveries | 23 | 1 |
| Ending balance | $ 1,110 | $ 440 |

Impaired loans were not material for any period presented.

Nonperforming loans were as follows:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Loans past due over 90 days still on accrual | $ - | $ - |
| Nonaccrual loans | 541 | 286 |

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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NOTE 3 - FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were as follows.

(Dollars in thousands except per share data)

| | March 31, 2005 | December |
|---|---|---|
| Maturity April 2005 at 3.02% floating rate | $ 4,625 | $ |
| Maturity January 2005 at 2.20% floating rate | - | 2 |
| Maturities September 2005 thru September 2008, fixed at rates from 1.78% to 3.41%, averaging 2.81% as of March 31, 2005, and maturities March 2005 thru September 2008, fixed at rates from 1.50% to 3.41%, averaging 2.70% at December 31, 2004 | 11,270 | 1 |
| Total | $ 15,895 | $ 4 |

Fixed rate advances are due in full at their maturity date, with a penalty if prepaid. Floating rate advances can be prepaid at any time with no penalty. The advances were collateralized by $40,855 and $41,269 of first mortgage loans under a blanket lien arrangement, $719 and $695 second mortgage loans, $11,076 and $10,372 of multi-family mortgage loans, $4,170 and $3,236 of home equity lines of credit, $19,472 and $14,964 of commercial real estate loans and $711 and $770 of securities at March 31, 2005 and December 31, 2004. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to $44,992 at March 31, 2005.

Required payments over the next five years are:

| | |
|---|---|
| March 31, 2006 | $ 6,625 |
| March 31, 2007 | 4,000 |
| March 31, 2008 | 4,270 |
| March 31, 2009 | 1,000 |
| March 31, 2010 | - |
| Total | $ 15,895 |





## NOTE 4 - SEGMENT INFORMATION

The Company manages and operates two reportable segments: banking and mortgage banking. Loans, securities, deposits and servicing fees provide the revenue in the banking operation, and loan sales provide the revenues in mortgage banking.

Parent and Other included activities that are not directly attributed to the reportable segments, and is comprised of the Parent Company and elimination entries between all segments.

All operations are domestic. Prior to the Company's acquisition of Reserve Mortgage Services, Inc., an Ohio corporation ("Reserve"), in October 2004 as an operating subsidiary of the Company's wholly owned subsidiary, CFBank, a federally chartered savings association (the "Bank"), mortgage banking operations were performed by the Bank, and there was only one reportable segment. As such, no segment information is included for the previous period.

The accounting policies are the same as those described in the Summary of Significant Accounting Policies. Income taxes are allocated and transactions among the segments are made at fair value.

For the three months ended: March 31, 2005

| | Banking | Mortgage Banking | Parent and O |
|---|---|---|---|
| Net interest income (expense) | $ 1,243 | $ (4) | $ (7 |
| Provision for loan losses | (218) | | |
| Other revenue | 87 | 211 | |
| Other expense | (1,360) | (248) | (9 |
| Loss before income tax | (248) | (41) | (16 |
| Income tax benefit | (94) | (13) | (5 |
| Net loss | $ (154) | $ (28) | $ (10 |
| Segment assets | $ 151,974 | $ 2,287 | $ (1,40 |

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CENTRAL FEDERAL CORPORATION
Item 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following analysis discusses changes in financial condition and results of operations during the periods included in the Consolidated Financial Statements which are part of this filing.

FORWARD-LOOKING STATEMENTS
When used in this Form 10-QSB, or in future filings with the SEC, in press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, 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. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Company's actual results to be materially different from those indicated. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the market areas where the Company conducts business, which could materially impact credit quality trends, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the market areas where the Company conducts business, and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

GENERAL

The Company's results of operations are dependent primarily on net interest income, which is the difference ("spread") between the interest income earned on loans and securities and the cost of funds, consisting of interest paid on deposits and borrowed funds. The interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. The Company's net income is also affected by, among other things, loan fee income, provisions for loan losses, service charges, gains on loan sales, operating expenses and franchise and income taxes. The Company's operating expenses principally consist of employee compensation and benefits, occupancy and other general and administrative expenses. The Company's results of operations are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may also materially impact the Company.

MANAGEMENT STRATEGY

The Company is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves. The Company attracts deposits from the general public and uses such deposits, together with borrowings and other funds, primarily to originate commercial and commercial real estate loans, single-family and multi-family residential mortgage loans, home equity lines of credit and short-term consumer loans.

During the first quarter of 2005, the Company continued to execute the plan for growth, which started with significant changes in 2003 to utilize its strong capital position to take advantage of opportunities for expansion into business financial services and position itself for growth in the Fairlawn and Columbus, Ohio markets.

Commercial, commercial real estate and multi-family loan balances increased 14.5% during the first quarter of 2005 and totaled $60.4 million at March 31, 2005, as the Company continued its focus on this business. Growth in the loan portfolio was primarily funded through growth in deposits and the Company's existing liquidity. Mortgage loan originations increased and gains on sales totaled $211,000 during the quarter due to production from Reserve, the Company's mortgage services subsidiary which was acquired in October 2004.

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CENTRAL FEDERAL CORPORATION
Item 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS

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Profitability in the first quarter of 2005 was impacted by, and near-term profitability is expected to continue to be impacted by provisions for loan losses resulting from increased commercial, commercial real estate and multi-family residential lending and operating costs associated with the Company's growth plan.

The Company is not aware of any market or institutional trends, events or uncertainties that are expected to have a material effect on liquidity, capital resources or operations. The Company is not aware of any current recommendations by its regulators which would have a material effect if implemented.

FINANCIAL CONDITION

General. Total assets declined $18.1 million and totaled $152.9 million at March 31, 2005 compared to $171.0 million at December 31, 2004. The decline was caused by using cash of $25.3 million to repay overnight Federal Home Loan Bank (FHLB) advances.

Cash and cash equivalents. Cash and cash equivalents totaled $3.3 million at March 31, 2005, a decline of $29.3 million from $32.7 million at December 31, 2004 due to the use of cash to repay FHLB advances and other borrowings.

Securities. Securities available for sale totaled $15.7 million at March 31, 2005, an increase of $2.2 million from $13.5 million at December 31, 2004 due to security purchases during the quarter.

Loans. Loans totaled $116.5 million at March 31, 2005, an increase of $8.4 million or 7.8% from $108.1 million at December 31, 2004 due to growth in commercial, commercial real estate, multi-family residential and consumer loans offset by a decline in single-family mortgage and construction loan balances. Commercial, commercial real estate and multi-family loan balances increased $7.7 million, or 14.5% during the quarter and totaled $60.4 million at March 31, 2005 compared to $52.7 million at December 31, 2004. Consumer loan balances increased $1.7 million or 12.1% during the quarter and totaled $15.7 million at March 31, 2005 compared to $14.0 million at December 31, 2004 due to growth in home equity lines of credit. Single-family residential mortgage and construction loan balances declined $812,000 or 1.9% during the quarter and totaled $41.8 million at March 31, 2005 compared to $42.6 million at December 31, 2004 due to the sale of current mortgage loan production. Construction loans, which totaled $1.1 million at December 31, 2004, were completed and transferred to permanent mortgage loans during the quarter.

Deposits. Deposits increased $9.0 million, or 8.9% during the first quarter of 2005 and totaled $110.6 million at March 31, 2005 compared to $101.6 million at December 31, 2004. The increase was due to growth of $7.0 million in certificate of deposit accounts and $2.0 million in demand deposit accounts, largely commercial checking accounts.

Federal Home Loan Bank advances. FHLB advances totaled $15.9 million at March 31, 2005, a decline of $25.3 million from $41.2 million at December 31, 2004 due to repayments, discussed above.

Other borrowings. Other borrowings, which totaled $2.2 million at December 31, 2004 and represented the outstanding balance on a revolving line of credit with an unaffiliated bank acquired in the Reserve acquisition, were repaid during the quarter ended March 31, 2005.

Shareholders' equity. Total shareholders' equity declined 0.5% during the quarter and totaled $19.4 million at March 31, 2005 compared to $19.5 million at December 31, 2004 due to the net loss and dividends during the quarter. Shareholders' equity was increased by $374,000 from the proceeds of stock options exercised during the quarter. The Company's capital position remains strong and increased to 12.7% at March 31, 2005 compared to 11.4% at December 31, 2004.

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Office of Thrift Supervision ("OTS") regulations require savings institutions to maintain certain minimum levels of regulatory capital. Additionally, the regulations establish a framework for the classification of savings institutions into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, an institution is considered well-capitalized if it has a core (Tier 1) capital ratio of at least 5.0% (based on adjusted total assets); a core (Tier 1) risk-based capital ratio of a least 6.0%; and a total risk-based capital ratio of at least 10.0%. The Bank had capital ratios above the well-capitalized levels at March 31, 2005 and December 31, 2004.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

General. The Company incurred a net loss for the quarter ended March 31, 2005 of $289,000 or $.13 per diluted share, compared to a net loss of $268,000 or $.13 per diluted share for the quarter ended March 31, 2004. The loss for the quarter ended March 31, 2005 was due to an increase in the provision for loan losses reflecting growth in the loan portfolio and the result of increased operating expenses associated with the Company's growth strategy.

Net interest income. Net interest income increased 34.2% and totaled $1.2 million for the quarter ended March 31, 2005, compared to $871,000 for the prior year quarter. The improvement in net interest income was due to growth in assets in accordance with the Company's growth plan. Both the volume and yield on interest-earning assets increased during the first quarter of 2005 compared to the first quarter of 2004. The resultant growth in interest income was partially offset by increased interest expense related to funding loan growth, due to an increase in volume and cost of interest-bearing liabilities during the current year quarter.

Average interest earning assets increased $45.7 million or 46.5% and totaled $143.9 million during the first quarter of 2005 compared to $98.2 million during the first quarter of 2004 due to loan growth pursuant to the Company's strategy to expand into business financial services in the Fairlawn and Columbus, Ohio markets. The yield on interest earning assets increased 15 basis points (bp) and totaled 5.39% during the first quarter of 2005 compared to 5.24% during the prior year quarter as a result of higher short term interest rates in the current year quarter. Interest income increased $667,000 or 52.5% and totaled $1.9 million during the first quarter of 2005 compared to $1.3 million during the prior year quarter due to growth in loan balances. Interest income on loans increased $705,000 or 72.7% and totaled $1.7 million for the quarter ended March 31, 2005 compared to $970,000 for the prior year quarter. Average loan balances increased $50.8 million, or 81.7% to $113.1 million during the first quarter of 2005 compared to $62.2 million during the first quarter of 2004 due to commercial, commercial real estate and multi-family mortgage loan growth. The average yield on loans declined 31 bp to 5.93% during the first quarter of 2005 compared to 6.24% during the first quarter of 2004 reflecting a change in the mix of the loan portfolio resulting from growth in commercial, commercial real estate and multi-family loans which are predominantly adjustable rate loans and tend to have lower yields than long-term fixed-rate mortgage loans. Single-family mortgage loans declined to 35.8% of the net loan portfolio at March 31, 2005 from 56.8% at March 31, 2004. Commercial, commercial real estate and multi-family mortgage loans grew to 51.8% of the net loan portfolio at March 31, 2005 from 24.2% at March 31, 2004.

Average interest-bearing liabilities increased $45.5 million or 52.6% and totaled $132.0 million during the first quarter of 2005 compared to $86.5 million during the first quarter of 2004 due to growth in deposits and borrowings used to fund loan growth. The average cost of interest-bearing liabilities increased 48 bp or 25.9% and totaled 2.33% for the first quarter of 2005 compared to 1.85% for the first quarter of 2004 primarily due to higher short-term interest rates in the current year quarter which resulted in both higher deposit and borrowing costs. Interest expense on deposits increased $211,000 or 65.1% and totaled $535,000 for the quarter ended March 31, 2005 compared to $324,000 for the prior year quarter. Average deposit balances increased $30.1 million and totaled $102.2 million during the quarter ended March 31, 2005 compared to $72.0 million during the prior year quarter due to an increase in certificate of deposit and commercial deposit accounts. The average cost of deposits increased 29 bp to 2.09%

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during the quarter ended March 31, 2005 from 1.80% in the prior year quarter. Interest expense on FHLB advances and other debt, including subordinated debentures increased $158,000 and totaled $234,000 during the quarter ended March 31, 2005 compared to $76,000 during the prior year quarter due to a $15.4 million increase in the average balance of debt outstanding, which totaled $29.8 million during the quarter ended March 31, 2005 compared to $14.4 million during the prior year quarter and a 106 bp increase in borrowing costs, to 3.14% during the first quarter of 2005 compared to 2.08% in the prior year quarter.

Net interest margin declined 35 bp to 3.25% for the quarter ended March 31, 2005 compared to 3.60% for the prior year quarter.

Provision for loan losses. Management analyzes the adequacy of the allowance for loan losses regularly through reviews of the performance of the loan portfolio considering economic conditions, changes in interest rates and the effect of such changes on real estate values and changes in the composition of the loan portfolio. The allowance for loan losses is established through a provision for loan losses based on Management's evaluation of the risk in its loan portfolio. Such evaluation, which includes a review of all loans for which full collectibility may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience, changes in the size and growth of the loan portfolio and other factors that warrant recognition in providing for an adequate loan loss allowance. Future additions to the allowance for loan losses will be dependent on these factors.

Based on Management's review, the provision for loan losses totaled $218,000 in the first quarter of 2005, an increase of $182,000 from $36,000 in the prior year quarter. The Company's strategy to expand into business financial services and the significant growth in commercial, commercial real estate and multi-family mortgage loans that resulted from that strategy required an increase in the provision and allowance for loan losses related to these loan types. The provision also included additional reserves for losses on mortgage loans due to $74,000 in write-offs during the quarter ended March 31, 2005. At March 31, 2005, the allowance for commercial, commercial real estate and multi-family mortgage loans totaled $981,000, or 88.4% of the total allowance for loan losses, compared to $142,000, or 32.3% at March 31, 2004. At March 31, 2005, the allowance for loan losses on all loan types represented .94% of total loans compared to .67% at March 31, 2004. Nonperforming loans, all of which are nonaccrual loans, increased $255,000 to $541,000, or .5% of total loans at March 31, 2005 compared to $286,000, or .3% of total loans at December 31, 2004 due to an increase in delinquent single-family mortgage loans. More than 95% of the nonaccrual loan balances are secured by single-family homes in the Company's primary market area. Management believes the allowance for loan losses is adequate to absorb probable incurred credit losses in the loan portfolio at March 31, 2005, however future additions to the allowance may be necessary based on changes in economic conditions and the factors discussed in the previous paragraph.

Noninterest income. Noninterest income increased $207,000 to $299,000 in the first quarter of 2005, compared to $92,000 in the first quarter of 2004, due to increased gains on the sale of loans in the current year quarter. Gains on sale of loans increased $194,000 and totaled $211,000 during the quarter ended March 31, 2005 compared to $17,000 during the quarter ended March 31, 2004 due to increased mortgage originations and sales. The Company sells loans on a servicing released basis.

Noninterest expense. Noninterest expense increased $347,000 and totaled $1.7 million for the quarter ended March 31, 2005 compared to $1.4 million in the prior year period. Operating costs related to Reserve totaled $241,000, including $31,000 amortization of intangible assets during the current year quarter. The current year quarter also included $37,500 costs related to the reverse stock split transaction which was abandoned by the Board of Directors in March 2005. The Company moved to its new headquarters and CFBank location in Fairlawn in April 2004, and occupancy expenses reflect approximately $42,000 more in the current year quarter as compared to the quarter ended March 31, 2004, which was prior to the move.

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Income taxes. The income tax benefit associated with the loss for the quarter ended March 31, 2005 totaled $163,000, comparable to the $160,000 tax benefit in the prior year quarter.

CRITICAL ACCOUNTING POLICIES

The Company follows financial accounting and reporting policies that are in accordance with generally accepted accounting principles in the United States of America and conform to general practices within the banking industry. These policies are presented in Note 1 to the audited consolidated financial statements in the Company's 2004 Annual Report to Shareholders incorporated by reference into the Company's 2004 Annual Report on Form 10-KSB. Some of these accounting policies are considered to be critical accounting policies, which are those policies that require Management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Application of assumptions different than those used by Management could result in material changes in the Company's financial position or results of operations. Management believes that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements are appropriate given the factual circumstances at the time.

The Company has identified accounting polices that are critical accounting policies and an understanding of these policies is necessary to understand our financial statements. One critical accounting policy relates to determining the adequacy of the allowance for loan losses. The Company's Allowance for Loan Losses Policy provides a thorough, disciplined and consistently applied process that incorporates Management's current judgments about the credit quality of the loan portfolio into determination of the allowance for loan and lease losses in accordance with generally accepted accounting principles and supervisory guidance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Management believes that an adequate allowance for loan losses has been established. Additional information regarding this policy is included in the section above captioned "Provision for loan losses" and in the notes to the consolidated financial statements in the Company's 2004 Annual Report to Shareholders incorporated by reference into the Company's 2004 Annual Report on Form 10-KSB, Note 1 (Summary of Significant Accounting Policies) and Note 4 (Loans).

Another critical accounting policy relates to the valuation of the deferred tax asset for net operating losses. Net operating losses totaling $2.8 million and $2.5 million expire in 2023 and 2024, respectively. No valuation allowance has been recorded against the deferred tax asset for net operating losses because the benefit is more likely than not to be realized. As the Company continues its strategy to expand into business financial services and focus on growth, the resultant increase in interest-earning assets is expected to increase profitability. Additionally, the acquisition of Reserve is expected to increase the Company's single-family mortgage loan volume and resultant gains on loan sales. Additional information is included in the notes to the consolidated financial statements in the Company's 2004 Annual Report to Shareholders incorporated by reference into the Company's 2004 Annual Report on Form 10-KSB, Note 14 (Income Taxes).

LIQUIDITY AND CAPITAL RESOURCES

In general terms, liquidity is a measurement of the Company's ability to meet its cash needs. The Company's objective in liquidity management is to maintain the ability to meet loan commitments, purchase securities or to repay deposits and other liabilities in accordance with their terms without an adverse impact on current or future earnings. The Company's principal sources of funds are deposits, amortization and prepayments of loans, maturities, sales and principal receipts of securities, borrowings and operations. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Bank is required by regulation to maintain sufficient liquidity to ensure its safe and sound operation. Thus, adequate liquidity may vary depending on the Bank's overall asset/liability structure, market conditions, the activities

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of competitors and the requirements of its own deposit and loan customers. Management believes that the Bank's liquidity is sufficient.

Liquidity management is both a daily and long-term responsibility of Management. The Company adjusts its investments in liquid assets, primarily cash, short-term investments and other assets that are widely traded in the secondary market, based on Management's assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities and the objective of its asset/liability management program. In addition to its liquid assets, the Company has other sources of liquidity available including, but not limited to access to advances from the Federal Home Loan Bank, use of brokered deposits and the ability to obtain deposits by offering above-market interest rates.

The Bank relies primarily on competitive rates, customer service and relationships with customers to retain deposits. Based on the Bank's experience with deposit retention and current retention strategies, Management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with the Bank.

At March 31, 2005, the Bank exceeded all of its regulatory capital requirements to be considered well-capitalized with a Tier 1 capital level of $13.5 million, or 9.0% of adjusted total assets, which exceeds the required level of $7.5 million, or 5.0%; Tier 1 risk-based capital level of $13.5 million, or 10.7% of risk-weighted assets, which exceeds the required level of $7.5 million, or 6.0%; and risk-based capital of $14.6 million, or 11.6% of risk-weighted assets, which exceeds the required level of $12.6 million, or 10.0%.

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CENTRAL FEDERAL CORPORATION
Item 3.
CONTROLS AND PROCEDURES

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Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective to record, process, summarize and report, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

Changes in Internal Control Over Financial Reporting. The Company made no change in its internal control over financial reporting during its last fiscal quarter that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

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CENTRAL FEDERAL CORPORATION

PART II. - Other Information

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

The information required by this item was contained in the Company's Annual Report on Form 10-KSB filed with the Commission on March 30, 2005.

Item 6. Exhibits

(a)

| Exhibit Number | Exhibit |
|---|---|
| 3.1* | Certificate of Incorporation |
| 3.2* | Bylaws |
| 4.0* | Form of Common Stock Certificate |
| 10.1 | Amendment to Salary Continuation Agreement between CFBank and David C. Ver |
| 31.1 | Rule 13a-14(a) Certifications of the Chief Executive Officer |
| 31.2 | Rule 13a-14(a) Certifications of the Chief Financial Officer |
| 32.1 | Section 1350 Certifications of the Chief Executive Officer and Chief Finan Officer |

* Incorporated by reference into this document from the Exhibits filed with the Registration Statement on Form SB-2 and any amendments thereto, Registration No. 333-64089.

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CENTRAL FEDERAL CORPORATION
SIGNATURES

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In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL FEDERAL CORPORATION

Dated: May 13, 2005 By: /s/ Mark S. Allio

Mark S. Allio
Vice Chairman of the Board, President and
Chief Executive Officer

Dated: May 13, 2005 By: /s/ Therese Ann Liutkus

Therese Ann Liutkus, CPA
Treasurer and Chief Financial Officer

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