CENTRAL FEDERAL CORP
Form 10QSB
August 13, 2004

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 June 30, 2004

[ ] 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)

601 Main Street, Wellsville, Ohio 43968
(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 July 30, 2004
Common stock, $0.01 par value	2,062,138 shares

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

CENTRAL FEDERAL CORPORATION
FORM 10-QSB
QUARTER ENDED JUNE 30, 2004

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

	June 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Cash and cash equivalents	$ 14,955	$ 8,936
Interest-bearing deposits in other financial institutions	298	1,587

Securities available for sale	22,006	27,126
Loans held for sale	683	106
Loans, net of allowance of $465 and $415	78,033	58,024
Federal Home Loan Bank stock	3,699	3,626
Loan servicing rights	237	221
Foreclosed assets, net	616	193
Premises and equipment, net	2,730	1,932
Bank owned life insurance	3,330	3,256
Accrued interest receivable	469	487
Other assets	1,897	1,517
	$ 128,953	$ 107,011
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 3,054	$ 2,457
Interest bearing	74,901	70,901
Total deposits	77,955	73,358
Federal Home Loan Bank advances	25,600	7,500
Advances by borrowers for taxes and insurance	195	207
Accrued interest payable and other liabilities	1,387	935
Subordinated debentures	5,155	5,155
Total liabilities	110,292	87,155
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value; 6,000,000 shares authorized; 2004 - 2,294,520 shares issued, 2003 - 2,280,020 shares issued	23	23
Additional paid-in capital	12,096	11,845
Retained earnings	10,058	10,997
Accumulated other comprehensive income (loss)	(157)	201
Unearned stock based incentive plan shares	(487)	(357)
Treasury stock, 255,648 shares at cost	(2,872)	(2,853)
Total shareholders' equity	18,661	19,856
	$ 128,953	$ 107,011

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,		Six
	2004	2003	20

Interest and dividend income			
Loans, including fees	$ 1,071	$ 1,041	$ 2,
Taxable securities	210	243	
Tax exempt securities	7	-	
Federal Home Loan Bank stock dividends	36	35	
Federal funds sold and other	48	36	
	1,372	1,355	2,
Interest expense			
Deposits	309	361	
Federal Home Loan Bank advances and other debt	80	155	
Subordinated debentures	52	-	
	441	516	
Net interest income	931	839	1,
Provision for loan losses	34	83	
Net interest income after provision for loan losses	897	756	1,
Noninterest income			
Service charges on deposit accounts	31	47	
Net gains on sales of loans	27	135	
Loan servicing fees, net	49	(26)	
Net gains (losses) on sales of securities	(19)	-	
Earnings on bank owned life insurance	40	50	
Other	6	5	
	134	211	
Noninterest expense			
Salaries and employee benefits	810	5	1,
Occupancy and equipment	84	50	
Data processing	96	63	
Franchise taxes	57	94	
Professional fees	127	221	
Director fees	40	46	
Postage, printing and supplies	59	65	
Advertising and promotion	31	21	
Telephone	23	7	
Loan expenses	12	25	
Foreclosed assets, net	(15)	1	
Depreciation	85	30	
Other	74	47	
	1,483	675	2,
Income (loss) before income taxes	(452)	292	(
Income tax expense (benefit)	(168)	240	(
Net income (loss)	$ (284)	$ 52	$ (
Earnings (loss) per share:			
Basic	($ 0.14)	$ 0.03	($ 0
Diluted	($ 0.14)	$ 0.03	($ 0

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	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearn Based Plan
Balance at January 1, 2004	$ 23	$ 11,845	$ 10,997	$ 201	$
Comprehensive income:					
Net loss			(552)		
Other comprehensive income				(358)	
Total comprehensive loss					
Issuance of stock based incentive plan shares (23,027 shares)		237			
Release of 11,928 stock based incentive plan shares					
Stock options exercised (10,000 shares)			(20)		
Tax benefits from stock options exercised		14			
Purchase of 10,000 shares of treasury stock					
Cash dividends declared ($.18 per share)			(367)		
Balance at June 30, 2004	$ 23	$ 12,096	$ 10,058	$ (157)	$

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six m 2
Net income (loss)	$ (284)	$ 52	$ (
Change in net unrealized loss on securities available for sale	(875)	(62)	(

Less: Reclassification adjustment for losses later recognized in net income	(19)	-	
Net unrealized losses	(856)	(62)	(
Unrealized gain on securities transferred from held to maturity to available for sale	-	458	
Tax effect	291	(135)	
Other comprehensive income (loss)	(565)	261	(
Comprehensive income (loss)	$ (849)	$ 313	$ (

See accompanying notes to consolidated financial statements.

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

	Six months ende 2004
Cash flows from operating activities	$ (613)
Cash flows from investing activities	
Net decrease in interest bearing deposits	1,289
Available-for-sale securities:	
Sales	3,952
Maturities, prepayments and calls	3,516
Purchases	(2,987)
Held-to-maturity securities:	
Maturities, prepayments and calls	-
Loan originations and payments, net	(20,483)
Additions to premises and equipment	(954)
Cash received in repayment of ESOP loan	-
Other	20
Net cash from investing activities	(15,647)
Cash flows from financing activities	
Net change in deposits	4,597
Proceeds from Federal Home Loan Bank advances and other debt	20,050
Repayments on Federal Home Loan Bank advances and other debt	(1,950)
Net change in advances by borrowers for taxes and insurance	(12)
Cash dividends paid	(367)

Proceeds from private placement	-
Proceeds from exercise of stock options	92
Repurchase of common stock	(131)
Net cash from financing activities	22,279
Net change in cash and cash equivalents	6,019
Beginning cash and cash equivalents	8,936
Ending cash and cash equivalents	$ 14,955
Supplemental cash flow information:	
Interest paid	$ 873
Income taxes paid	-
Supplemental noncash disclosures:	
Transfer of securities from held to maturity to available for sale	$ -
Transfers from loans to repossessed assets	614

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2004 and December 31, 2003 and for the three and six months ended June 30, 2004 and 2003 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 and six months ended June 30, 2004 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, 2003. 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 2003 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.

Earnings Per Share:

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. 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.

The factors used in the earnings per share computation follow.

(Dollars in thousands except per share data)

	Three months ended June 30, 2004	Three months ended June 30, 2003
Basic		
Net income (loss)	$ (284)	$ 52
Weighted average common shares outstanding	1,995,758	1,837,884
Basic earnings (loss) per common share	$ (0.14)	$ 0.03
Diluted		
Net income (loss)	$ (284)	$ 52
Weighted average common shares outstanding for basic earnings (loss) per share	1,995,758	1,837,884
Add: Dilutive effects of assumed exercises of stock options and stock based incentive plan shares	-	45,219
Average shares and dilutive potential common shares	1,995,758	1,883,103
Diluted earnings (loss) per common share	$ (0.14)	$ 0.03

The following potential average common shares were anti-dilutive and not considered in computing diluted earnings (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 June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003

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Stock options	288,585	5,667	251,841	214,938
Stock based incentive plan shares	41,073	-	34,561	26,143

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 earnings (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.

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.

(Dollars in thousands except per share data)

	Three months ended June 30,		Six months e
	2004	2003	2004
Net income (loss) as reported	$ (284)	$ 52	$ (552)
Deduct: Stock-based compensation expense determined under fair value based method	81	38	137
Pro forma net income (loss)	$ (365)	$ 14	$ (689)
Basic earnings (loss) per share as reported	$ (0.14)	$ 0.03	$ (0.28)
Pro forma basic earnings (loss) per share	(0.18)	0.01	(0.35)
Diluted earnings (loss) per share as reported	$ (0.14)	$ 0.03	$ (0.28)
Pro forma diluted earnings (loss) per share	(0.18)	0.01	(0.35)

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

	Three months ended June 30, 2004	Six months ended June 30, 2004

Risk-free interest rate	3.38%	3.26%
Expected option life	6.00 years	6.00 years
Expected stock price volatility	41%	41%
Dividend yield	2.86%	2.86%

Reclassifications:

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

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - LOANS

Loans were as follows

	June 30, 2004	December 31, 2003
Commercial	$ 5,804	$ 4,116
Real estate:		
Residential	39,565	36,060
Commercial	19,292	5,040
Construction	975	610
Consumer	12,887	12,598
Subtotal	78,523	58,424
Less: Net deferred loan fees	(25)	15
Allowance for loan losses	(465)	(415)
Loans, net	$ 78,033	$ 58,024

NOTE 3 - FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were as follows.

	June 30, 2004	Dece
Maturity July 2004 at 1.50% fixed rate	$ 15,600	$
Maturity January 2004 at 1.09% floating rate	-	
Maturities March 2005 thru September 2008, at fixed rates from 1.50% to 3.32%, averaging 2.54%	10,000	
Total	$ 25,600	$

Fixed rate advances are payable at their maturity date, with a prepayment penalty. Floating rate advances can be prepaid at any time with no penalty. The advances were collateralized by $36,659 and $34,795 of first mortgage loans under a blanket lien arrangement and $878 and $1,296 of securities at June 30, 2004 and December 31, 2003.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - FEDERAL HOME LOAN BANK ADVANCES (CONTINUED)

Required payments on all debt over the next five years are:

2005	1,000
2006	4,000
2007	2,000
2008	2,000
2009	1,000

NOTE 4 - PENDING BUSINESS COMBINATION

On June 10, 2004, the Company entered into a definitive agreement to acquire RJO Financial Services, Inc., doing business as Reserve Mortgage Services, an Akron, Ohio based company licensed as a mortgage banker in Ohio, Florida and Georgia. The Company will purchase all of the outstanding common stock of RJO Financial Services, Inc. in exchange for 153,846 shares of Central Federal Corporation Common Stock. Based on the $14.06 average closing price of Central Federal Corporation Common Stock during the week before and after the announcement on June 10, 2004, the value of the acquisition was approximately $2.2 million. The acquisition is subject to regulatory approval and is expected to be completed during the third quarter of 2004.

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CENTRAL FEDERAL CORPORATION
Item 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following analysis discusses changes in financial condition and results of operations of the Company and its wholly owned subsidiary, CFBank ("Bank"), 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 its loans and securities and its cost of funds, consisting of interest paid on its 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, operating expenses and franchise and income taxes. The Company's revenues are derived primarily from interest on mortgage loans, consumer loans, commercial loans and securities, as well as income from service charges and loan sales. The Company's operating expenses principally consist of interest expense, 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 implemented 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. During the first six months of 2004, the Company continued to execute the plan for growth.

Commercial and commercial real estate loan balances increased 173% during the first half of 2004 and totaled $25.1 million at June 30, 2004, as the Company continued its focus on commercial lending. The Fairlawn office moved from its temporary location and opened for business in a newly constructed office building in April 2004, and Central Federal Bank, a wholly owned subsidiary of the Company, began using its new name, CFBank. On June 10, 2004, the Company announced that it had entered into a definitive agreement to acquire RJO Financial Services, Inc., doing business as Reserve Mortgage Services (Reserve), an Akron, Ohio-based mortgage company. The acquisition of Reserve will enable the Company to significantly expand mortgage services. The acquisition is subject to regulatory approval and is expected to be completed during the third quarter of 2004. The Company expects the acquisition will be immediately accretive to earnings.

The Company continued to sell current originations of long-term fixed-rate mortgages during the first half of 2004, rather than subject the Company to the interest rate risk associated with rising interest rates when such loans are held in portfolio. Growth in the commercial loan portfolio was primarily financed with Federal Home Loan Bank advances at fixed rates and maturities from March 2005 through September 2008, protecting the Company from increased funding costs associated with rising interest rates.

Profitability in the first half of 2004 was impacted and near-term profitability is expected to continue to be impacted by the operating costs associated with offices in Fairlawn and Columbus, improvements in technology and staffing costs associated with the expansion. Profitability will be further impacted by the sale of current long-term fixed-rate mortgage production which may cause mortgage loan portfolio balances and income from the portfolio to decline. Although the decision to sell current mortgage originations may result in lower earnings from the portfolio in the near term, it protects future profitability as management believes it is not prudent to retain these long-term fixed-rate loans and expose the Company to the interest rate risk and reduced future earnings associated with a rise in interest rates. Profitability has also been negatively impacted by a rise in mortgage interest rates, which has caused consumer refinancing to slow, reducing the Bank's volume of loan originations, sales and resultant gains. Longer term, however, growth in commercial loans and deposits at the Fairlawn and Columbus offices and the Reserve acquisition are expected to result in improved financial performance.

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. Assets totaled $129.0 million at June 30, 2004, an increase of $22.0 million or 20.5% from $107.0 million at December 31, 2003 primarily due to growth in the commercial and commercial real estate loan portfolio.

Cash and cash equivalents. Cash and cash equivalents totaled $15.0 million at June 30, 2004, an increase of $6.1 million or 67.4% from $8.9 million at December 31, 2003 primarily due to cash flows from securities sales, maturities and repayments retained in liquid accounts to be readily available to fund commercial loans.

Securities. Securities available for sale totaled $22.0 million at June 30, 2004, a decrease $5.1 million or 18.9% from $27.1 million at December 31, 2003 primarily due to securities sales, maturities and repayments retained in liquid accounts to be readily available to fund commercial loans, as discussed above.

Loans. Loans totaled $78.0 million at June 30, 2004, an increase of $20.0 million or 34.5% from $58.0 million at December 31, 2003 primarily due to growth in commercial and commercial real estate loan balances, which increased $15.9 million during the six month period and totaled $25.1 million at June 30, 2004 compared to $9.2 million at December 31, 2003. Mortgage loan balances increased $3.7 million or 10.1% during the six month period and totaled $40.4 million at June 30, 2004 compared to $36.7 million at December 31, 2003 due to originations and purchases of adjustable rate mortgage loans.

Deposits. Deposits totaled $78.0 million at June 30, 2004, an increase of $4.6 million or 6.3% from $73.4 million at December 31, 2003. The increase was due to growth of $2.2 million in money market accounts, $1.7 million in checking accounts, primarily commercial checking accounts, $600,000 in savings accounts and $100,000 in certificates of deposit. The growth in deposits is a result of the Company's focus on commercial customer relationships.

Federal Home Loan Bank advances. Federal Home Loan Bank advances totaled $25.6 million at June 30, 2004, an increase of $18.1 million from $7.5 million at December 31, 2003 primarily due to the use of advances to fund commercial loan growth, as discussed above.

Shareholders' equity. Total shareholders' equity declined $1.2 million or 6.0% and totaled $18.7 million at June 30, 2004, compared to $19.9 million at December 31, 2003 primarily due to the net loss and dividends for the six month period. Capital was also reduced by a decline in the market value of securities related to the rise in market interest rates primarily during the second quarter of 2004. The Company's capital ratio declined to 14.5% at June 30, 2004 from 18.6% at December 31, 2003 primarily as a result of growth as the Company continued to implement its strategic plan to leverage the Company's strong capital position.

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 June 30, 2004 and December 31, 2003.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2004 AND 2003

General. The Company incurred a net loss for the quarter ended June 30, 2004 of $284,000 or $.14 per diluted share, compared to net income of $52,000 or $.03 per diluted share for the quarter ended June 30, 2003. The loss for the quarter ended June 30, 2004 was primarily due to noninterest expenses associated with expanding into business financial services: operating costs associated with offices in the Fairlawn and Columbus, Ohio markets in addition to its traditional market in Columbiana County, Ohio, improvements in technology, and staffing costs associated with this expansion. Net income for the quarter ended June 30, 2003 included reversal of a $413,000 charge related to the Company's pension plan which had been recorded in the first quarter of 2003. During the second quarter of 2003, the Board of Directors determined it was in the best interest of the Company to stop further participation in the pension plan rather than withdraw from it, and the $413,000 charge was reversed, reducing expenses in that quarter.

Net interest income. Net interest income is a significant component of the Company's net income, and consists of the difference between interest income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is primarily affected by the volumes, interest rates and composition of interest-earning assets and interest-bearing liabilities.

Net interest income increased $92,000 or 11.0% during the quarter ended June 30, 2004 to $931,000, compared to $839,000 for the prior year quarter due to a $75,000 decline in interest expense primarily reflecting a decline in the cost of interest-bearing liabilities slightly offset by a $17,000 increase in interest income primarily resulting from growth in interest-earning assets pursuant to the Company's expansion into business financial services in the Fairlawn and Columbus, Ohio markets.

The average cost of interest-bearing liabilities declined 27.5%, or 66 basis points (bp) and totaled 1.74% for the second quarter of 2004 compared to 2.40% for the second quarter of 2003. The decline in cost was primarily due to prepayment of long-term high fixed-rate Federal Home Loan Bank (FHLB) advances in the fourth quarter of 2003 which were replaced with subordinated debentures in December 2003 and fixed-rate advances at lower current market interest rates during the first half of 2004 as funds were needed for loan growth. Interest expense on deposits declined $52,000 or 14.4% and totaled $309,000 for the quarter ended June 30, 2004 compared to $361,000 for the prior year quarter. The average cost of deposits declined 27 bp to 1.66% during the quarter ended June 30, 2004 from 1.93% in the prior year quarter as a result of a decrease in rates paid as market interest rates declined, a decrease in more costly certificate of deposit accounts and growth in less expensive commercial deposits. The

average balance of deposits declined $291,000 and totaled $74.6 million during the quarter ended June 30, 2004 compared to $74.9 million during the prior year quarter primarily due to a decline in certificate of deposit accounts partially offset by growth in commercial deposits. Interest expense on FHLB advances and other debt, including subordinated debentures declined $23,000 or 14.8% and totaled $132,000 during the quarter ended June 30, 2004 compared to $155,000 during the prior year quarter primarily as a result of the prepayment of $11.2 million in fixed-rate FHLB advances in the fourth quarter of 2003 which had an average cost of 5.52% replaced by FHLB advances and subordinated debentures at lower interest rates, as discussed above. The average cost of FHLB advances and other borrowings, including subordinated debentures declined 355 bp and totaled 1.96% during the quarter ended June 30, 2004 compared to 5.51% during the prior year quarter. The average balance of FHLB advances and other borrowings, including subordinated debentures increased $15.6 million and totaled $26.9 million during the quarter ended June 30, 2004 compared to $11.3 million during the prior year quarter as FHLB advances were used to fund loan growth in the current year period.

Average interest earning assets increased $16.9 million or 17.7% and totaled $112.2 million during the second quarter of 2004 compared to $95.3 million during the second quarter of 2003 primarily due to growth pursuant to the Company's strategy to expand into business financial services in the Fairlawn and Columbus, Ohio markets. Interest income increased $17,000 and totaled $1.4 million during the second quarter of 2004 primarily due to growth in commercial loan balances offset by a decline in interest income from securities as sales, maturities and repayments from the securities portfolio were reinvested in short term funds in anticipation of loan funding requirements. Interest income on loans increased $30,000 or 2.9% and totaled $1.07 million for the quarter ended June 30, 2004 compared to $1.04 million for the prior year quarter. Average loan balances increased $15.3 million, or 27.2% to $71.6 million during the second quarter of 2004 compared to $56.3 million during the second quarter of 2003 primarily due to commercial loan growth, however the average yield on loans declined 141 bp to 5.98% during the second quarter of 2004 compared to 7.39% during the second quarter of 2003 reflecting the decline in the mortgage portfolio yields resulting from the sale of long-term fixed-rate mortgage originations during 2003 as customers refinanced in the low mortgage interest rate environment and lower yield of commercial loans compared to mortgage loans.

Interest income on securities declined $26,000 or 10.7% and totaled $217,000 for the quarter ended June 30, 2004 compared to $243,000 for the prior year quarter. Average securities balances decreased $5.3 million to $22.2 million during the second quarter of 2004 compared to $27.5 million during the second quarter of 2003, as cash flows from sales, maturities and repayments of securities were used to fund loan growth.

Net interest margin decreased 20 bp to 3.33% for the quarter ended June 30, 2004 compared to 3.53% for the quarter ended June 30, 2003.

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 inherent in its loan portfolio and the general economy. 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 $34,000 for the quarter ended June 30, 2004 compared to $83,000 in the prior year quarter. The provision for loan losses reflects growth in the commercial loan portfolio in both the current and prior year quarters and, additionally, the current year quarter's provision reflects a decline in nonperforming loans. At June 30, 2004, the allowance for loan losses represented .59% of total loans compared to .72% at December 31, 2003. Further, nonperforming loans, all of which are nonaccrual loans, totaled $135,000 at June 30, 2004 and $741,000 at December 31, 2003. At June 30, 2004 and December 31, 2003, nonaccrual loans represented .17% and 1.28%, respectively, of the net loan balance. The decline in nonperforming

loans was principally due to the Company's acquisition of properties through the foreclosure process. Foreclosed assets increased $423,000 from $193,000 at December 31, 2003 to $616,000 at June 30, 2004. Assets acquired through foreclosure are initially recorded at fair value and, if fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. There was no such valuation allowance at June 30, 2004 or December 31, 2003. Management believes the allowance for loan losses is adequate to absorb probable losses in the loan portfolio at June 30, 2004; 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 decreased $77,000 to $134,000 in the second quarter of 2004, compared to $211,000 in the second quarter of 2003, primarily due to decreased gains on the sale of loans. Gains on sale of loans declined $108,000 and totaled $27,000 during the quarter ended June 30, 2004 compared to $135,000 during the quarter ended June 30, 2003 due to decreased mortgage originations and sales as mortgage interest rates increased and customer refinancing slowed during the current year quarter. In response to the increase in mortgage interest rates and to improve loan sales gains, management has implemented a program of selling long-term fixed-rate loans servicing released, rather than retaining the servicing as was the Company's past practice. Management anticipates that current market conditions of increasing mortgage interest rates may continue to reduce customer refinancing activity and the Bank's volume of loan originations, sales and resultant gains. However, the Bank's reduced volume will likely be offset by increased mortgage loan origination and sales activity with the acquisition of Reserve.

Noninterest expense. Noninterest expense increased $808,000 and totaled $1.5 million in the second quarter of 2004, compared to $675,000 in the second quarter of 2003. Noninterest expense for the quarter ended June 30, 2003 included reversal of a $413,000 charge related to the Company's pension plan which had been recorded in the first quarter of 2003. During the second quarter of 2003, the Board of Directors determined it was in the best interest of the Company to stop further employee participation the pension plan rather than withdraw from it, and the $413,000 charge was reversed, reducing expenses in that quarter. Not including this charge, noninterest expenses for the quarter ended June 30, 2004 increased $395,000 primarily due to increased staffing, reflected in salary and employee benefits expense, and increased operating expenses associated with improved technology and expansion to new locations in Fairlawn and Columbus, including data processing, occupancy, depreciation and other expenses.

Income taxes. The income tax benefit associated with the loss for the quarter ended June 30, 2004 totaled $168,000, compared to income tax expense of $240,000 for the quarter ended June 30, 2003 due to the loss in the current year quarter and income in the prior year quarter.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

General. The Company incurred a net loss for the six months ended June 30, 2004 of $552,000 or $.27 per diluted share, compared to a net loss of $1.1 million or $.63 per diluted share for the six months ended June 30, 2003. The loss for the six months ended June 30, 2004 was primarily due to noninterest expenses associated with expanding into business financial services: operating costs associated with offices in the Fairlawn and Columbus, Ohio markets in addition to its traditional market in Columbiana County, Ohio, improvements in technology, and staffing costs associated with this expansion. The net loss for the six months ended June 30, 2003 included $1.4 million in salary and employee benefits expenses related to restructuring of employee benefit plans and payments on agreements with former executives.

Net interest income. Net interest income increased $76,000 or 4.4% during the six months ended June 30, 2004 and totaled $1.8 million, compared to $1.7 million for the prior year period due to a $276,000 decline in interest expense primarily reflecting a decline in the cost of interest-bearing liabilities partially offset by a $200,000 decline in interest income primarily due to lower yields on interest-bearing assets associated with management's strategy to

shorten security maturities and allow long-term mortgages to decline as 30 year fixed rate mortgages were refinanced and either sold or replaced by shorter term, lower fixed rate or adjustable rate mortgages.

The average cost of interest-bearing liabilities declined 30.0%, or 77 bp and totaled 1.79% for the first six months of 2004 compared to 2.56% for the prior year period. The decline in cost was primarily due to prepayment of long-term high fixed-rate Federal Home Loan Bank (FHLB) advances in the fourth quarter of 2003 which were replaced with subordinated debentures in December 2003 and fixed-rate advances at lower current market interest rates during the first half of 2004, as funds were needed for loan growth. Interest expense on deposits declined $126,000 or 16.6% and totaled $633,000 for the six months ended June 30, 2004 compared to $759,000 for the prior year period. The average cost of deposits declined 31 bp to 1.73% during the six months ended June 30, 2004 from 2.04% in the prior year period as a result of a decrease in rates paid as market interest rates declined, a decrease in more costly certificate of deposit accounts and growth in less expensive commercial deposits. The average balance of deposits declined $1.0 million and totaled $73.3 million during the six months ended June 30, 2004 compared to $74.3 million during the prior year period primarily due to a decline in certificate of deposit accounts partially offset by growth in commercial deposits. Interest expense on FHLB advances and other debt, including subordinated debentures declined $150,000 or 41.9% and totaled $208,000 during the six months ended June 30, 2004 compared to $358,000 during the prior year period primarily as a result of the prepayment of $11.2 million in fixed-rate FHLB advances in the fourth quarter of 2003 which had an average cost of 5.52% replaced by FHLB advances and subordinated debentures at lower interest rates, as discussed above. The average cost of FHLB advances and other borrowings, including subordinated debentures declined 353 bp and totaled 2.01% during the six months ended June 30, 2004 compared to 5.54% during the prior year period. The average balance of FHLB advances and other borrowings, including subordinated debentures increased $7.7 million and totaled $20.6 million during the six months ended June 30, 2004 compared to $12.9 million during the prior year period as FHLB advances were used to fund loan growth in the current year period.

The average yield on interest earnings assets declined 105 bp or 17.2% and totaled 5.05% for the first six months of 2004 compared to 6.10% during the prior year period. The decline in yield was primarily the result of management's strategy to shorten security maturities and allow mortgage loan portfolio balances to decline to improve liquidity and the Company's interest rate risk position. Average interest earning assets increased $11.8 million or 12.6% and totaled $105.2 million during the six months ended June 30, 2004 compared to $93.4 million during the prior year period primarily due to growth pursuant to the Company's strategy to expand into business financial services in the Fairlawn and Columbus, Ohio markets. Interest income declined $200,000 and totaled $2.6 million during the first six months of 2004 primarily due to declines in the yield of the loan and securities portfolios partially offset by growth in commercial loan balances. Interest income on loans declined $145,000 or 6.6% and totaled $2.0 million for the six months ended June 30, 2004 compared to $2.2 million for the prior year period. The average yield on loans declined 139 bp to 6.10% during the first six months of 2004 compared to 7.49% during the prior year period reflecting the decline in the mortgage portfolio yields resulting from the sale of long-term fixed-rate mortgage originations during 2003, as customers refinanced in the low mortgage interest rate environment and lower yield of commercial loans compared to mortgage loans. Average loan balances increased $8.6 million, or 14.8% to $66.9 million during the first six months of 2004 compared to $58.3 million during the prior year period primarily due to commercial loan growth. Interest income on securities declined $71,000 or 13.4% and totaled $459,000 for the six months ended June 30, 2004 compared to $530,000 for the prior year period. The average yield on securities declined 31 bp, or 7.3% to 3.94% for the six months ended June 30, 2004 compared to 4.25% for the prior year period reflecting shorter maturities.

Net interest margin decreased 25 bp to 3.45% for the six months ended June 30, 2004 compared to 3.70% for the quarter ended June 30, 2003.

Provision for loan losses. Based on management's review of the factors and market conditions discussed previously, the provision for loan losses totaled

$70,000 for the six months ended June 30, 2004 compared to $83,000 in the

prior year period. The provision for loan losses reflects growth in the commercial loan portfolio in both the current and prior year periods and the decline in nonperforming assets in the current year period, as discussed previously.

Noninterest income. Noninterest income decreased $156,000 to $226,000 in the first six months of 2004, compared to $382,000 in the prior year period primarily due to decreased gains on the sale of loans. Gains on sale of loans declined $171,000 and totaled $44,000 during the six months ended June 30, 2004 compared to $215,000 during the six months ended June 30, 2003 due to decreased mortgage originations and sales as mortgage interest rates increased and customer refinancing slowed during the current year period. See above for the expected impact of the acquisition of Reserve.

Noninterest expense. Noninterest expense decreased $607,000 and totaled $2.8 million for the six months ended June 30, 2004, compared to $3.4 million for the six months ended June 30, 2003. Noninterest expense for the six months ended June 30, 2003 included $1.4 million in salary and employee benefits expenses related to restructuring of employee benefit plans and payments on agreements with former executives. Not including this charge, noninterest expenses for the six months ended June 30, 2004 increased $820,000 compared to the prior year period primarily due to increased staffing, reflected in salary and employee benefits expense, and increased operating expenses associated with improved technology and expansion to new locations in Fairlawn and Columbus, including data processing, occupancy, depreciation and other expenses.

Income taxes. The income tax benefit associated with the loss for the six months ended June 30, 2004 totaled $328,000, compared to $349,000 for the six months ended June 30, 2003.

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 Central Federal Corporation's 2003 Annual Report to Shareholders incorporated by reference into Central Federal Corporation's 2003 Annual Report on Form 10-KSB. Some of these accounting policies are considered to be critical accounting policies. Critical accounting policies 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. The Company has identified accounting polices that are critical accounting policies and an understanding of these policies is necessary to understand the financial statements. A critical accounting policy relates to determining the adequacy of the allowance for loan losses. Additional information regarding this policy is included in the section captioned "Provision for Loan Losses". Management believes that the judgments, estimates and assumptions used in the preparation of our consolidated financial statements are appropriate given the factual circumstances at the time.

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

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 Bank 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 and the ability to obtain deposits by offering above-market interest rates.

The Bank relies primarily on competitive rates, customer service and long-standing 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 June 30, 2004, the Bank exceeded all of its regulatory capital requirements to be considered well-capitalized with a Tier 1 capital level of $14.6 million, or 11.3% of adjusted total assets, which exceeds the required level of $6.4 million, or 5.0%; Tier 1 risk-based capital level of $14.6 million, or 16.3% of risk-weighted assets, which exceeds the required level of $5.4 million, or 6.0%; and risk-based capital of $15.0 million, or 16.8% of risk-weighted assets, which exceeds the required level of $9.0 million, or 10.0%.

CENTRAL FEDERAL CORPORATION

Item 3.

CONTROLS AND PROCEDURES

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 Principal 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 Principal 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 Principal 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.

CENTRAL FEDERAL CORPORATION
PART II. - Other Information

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Small Business Issuer Purchases of Securities

SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 - 31, 2004	-	-	-	-
February 1 - 29, 2004	-	-	-	-
March 1 - 31, 2004	10,000(1)	$ 13.05	-	-
April 1 - 30, 2004	-	-	-	-
May 1 - 31, 2004	-	-	-	-
June 1 - 30, 2004	-	-	-	-

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(1) shares purchased in an transaction.

Item 3. Defaults Upon Senior Securities
None

CENTRAL FEDERAL CORPORATION
PART II. - Other Information

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

Central Federal Corporation held its Annual Meeting on April 20, 2004. Results of shareholder voting were as follows:

a. Election of Directors:

	William R. Downing	Mark S. Allio	Thomas P. Ash	David C. Vernon	Jerry F.
Term of office	One year	Two years	Three years	Three years	Three
For	1,602,105	1,565,452	1,605,280	1,560,952	1,5
Withheld	42,887	79,540	39,712	84,040	

The following directors' terms of office as a director continued after the meeting:

Jeffrey W. Aldrich
Gerry W. Grace

b. Approval of the Amended and Restated 2003 Equity Compensation Plan:

For	927,893
Against	147,074
Abstain	17,450
Broker non-votes	552,575

b. Ratification of the appointment of Crowe Chizek and Company LLC as independent auditors of the Company for the year ending December 31, 2004:

For	1,629,651
Against	2,841
Abstain	12,500

Item 5. Other Information
None

CENTRAL FEDERAL CORPORATION

Part II. - Other Information

Item 6. Exhibits and Reports on Form 8-K

(a)	Exhibit Number	Exhibit

2.0*	Stock Purchase Agreement by and among Central Federal Corporation and CFBank and RJO Financial Services, Inc. and Richard J. O'Donnell dated June 10, 2004
3.1**	Certificate of Incorporation
3.2**	Bylaws
4.0**	Form of Common Stock Certificate
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
32.2	Section 1350 Certifications of the Chief Financial Officer

* Incorporated by reference into this document from the Exhibits filed with the Current Report on Form 8K/A filed on August 12, 2004.

** 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.

(b) Reports on Form 8-K. The information reported is as follows:

On April 16, 2004, the registrant filed a Form 8-K to report financial results for the fiscal quarter ended March 31, 2004.

On June 16, 2004, the registrant filed a Form 8-K to report that it had entered into a definitive agreement to acquire RJO Financial Services, Inc.

On June 18, 2004, the registrant issued a press release to report the declaration of a quarterly dividend of $.09 per share payable on July 19, 2004 to shareholders of record on July 6, 2004.

On July 16, 2004, the registrant filed a Form 8-K to report financial results for the fiscal quarter ended June 30, 2004.

CENTRAL FEDERAL CORPORATION
SIGNATURES

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: August 13, 2004 By: /s/ David C. Vernon

David C. Vernon
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Dated: August 13, 2004 By: /s/ Therese Ann Liutkus

Therese Ann Liutkus, CPA
Chief Financial Officer
(Principal Financial Officer)