CENTRAL FEDERAL CORP
Form 10QSB
May 14, 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 March 31, 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.)

601 Main Street, Wellsville, Ohio 43968
(Address of principal executive offices)

(330) 532-1517
(Issuer's telephone number)

(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 30, 2004
Common stock, $0.01 par value	2,035,872 shares

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

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

	March 31, 2004 (unaudited)	December 31, 2003
ASSETS		
Cash and cash equivalents	$ 9,560	8,936
Interest-bearing deposits in other financial institutions	1,587	1,587
Securities available for sale	25,335	27,126

Loans held for sale	407	106
Loans, net of allowance $440 and $415	65,459	58,024
Federal Home Loan Bank stock	3,662	3,626
Loan servicing rights	207	221
Foreclosed assets, net	335	193
Premises and equipment, net	2,263	1,932
Bank owned life insurance	3,290	3,256
Accrued interest receivable	468	487
Other assets	1,585	1,517
	$ 114,158	$ 107,011
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 2,494	$ 2,457
Interest bearing	72,388	70,901
Total deposits	74,882	73,358
Federal Home Loan Bank advances	13,550	7,500
Advances by borrowers for taxes and insurance	107	207
Accrued interest payable and other liabilities	855	935
Subordinated debentures	5,155	5,155
Total liabilities	94,549	87,155
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value; 6,000,000 shares authorized; 2004 - 2,281,520 shares issued, 2003 - 2,280,020 shares issued	23	23
Additional paid-in capital	11,932	11,845
Retained earnings	10,504	10,997
Accumulated other comprehensive income	408	201
Unearned stock based incentive plan shares	(386)	(357)
Treasury stock, at cost (2004 - 255,648 shares, 2003 - 255,648 shares)	(2,872)	(2,853)
Total shareholders' equity	19,609	19,856
	$ 114,158	$ 107,011

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,

	2004	2003
Interest and dividend income		
Loans, including fees	$ 970	$ 1,145
Taxable securities	229	287
Tax exempt securities	13	-
Federal Home Loan Bank stock dividends	36	34
Federal funds sold and other	23	22
	1,271	1,488
Interest expense		
Deposits	324	398
Federal Home Loan Bank advances and other debt	24	203
Subordinated debentures	52	-
	400	601
Net interest income	871	887
Provision for loan losses	36	-
Net interest income after provision for loan losses	835	887
Noninterest income		
Service charges on deposit accounts	31	38
Net gains on sales of loans	17	80
Loan servicing fees, net	6	(2)
Earnings on bank owned life insurance	34	49
Other	4	6
	92	171
Noninterest expense		
Salaries and employee benefits	726	2,266
Occupancy and equipment	54	30
Data processing	114	49
Franchise taxes	56	99
Professional fees	65	171
Director fees	40	-
Supplies	31	21
Loan expenses	18	26
Foreclosed assets, net	6	1
Depreciation	69	37
Other	176	70
	1,355	2,770
Loss before income taxes	(428)	(1,712)
Income tax benefit	(160)	(589)
Net loss	$ (268)	$(1,123)
Loss per share:		
Basic	$ (0.13)	$ (0.74)
Diluted	(0.13)	(0.74)

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION
CONDENSED 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	Unear Based Plan
Balance at January 1, 2004	$ 23	$11,845	$ 10,997	$ 201	$
Comprehensive income:					
Net loss			(268)		
Other comprehensive income				207	
Total comprehensive loss					
Issuance of stock based incentive plan shares (10,027 shares)		73			
Release of 5,598 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 ($.09 per share)			(205)		
Balance at March 31, 2004	$ 23	$11,932	$ 10,504	$ 408	$

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2004	2003
Net loss	$ (268)	$(1,123)
Change in net unrealized gain on securities available for sale	314	6
Net unrealized gains	314	6
Tax effect	(107)	(2)
Other comprehensive income	207	4
Comprehensive loss	$ (61)	$(1,119)

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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, 2004	2003
Cash flows from operating activities	$ (676)	$ 284
Cash flows from investing activities		
Net decrease in interest bearing deposits	-	7,205
Available-for-sale securities:		
Maturities, prepayments and calls	2,058	(2,877)
Purchases	-	(9,109)
Held-to-maturity securities:		
Maturities, prepayments and calls	-	7,201
Loan originations and payments, net	(7,611)	2,517
Additions to premises and equipment	(399)	(35)
Net cash from investing activities	(5,952)	4,902
Cash flows from financing activities		
Net change in deposits	1,524	94
Proceeds from Federal Home Loan Bank advances and other debt	8,000	-
Repayments on Federal Home Loan Bank advances and other debt	(1,950)	(5,026)
Net change in advances by borrowers for taxes and insurance	(100)	(131)
Cash dividends paid	(183)	(148)
Proceeds from exercise of stock options	92	-
Repurchase of common stock	(131)	-
Net cash from financing activities	7,252	(5,211)
Net change in cash and cash equivalents	624	(25)
Beginning cash and cash equivalents	8,936	12,861
Ending cash and cash equivalents	$ 9,560	$ 12,836

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 for the three months ended March 31, 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 months ended March 31, 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)

The factors used in the earnings per share computation follow.

	Three Months 2004
Basic	
Net loss	$ (268)
Weighted average common shares outstanding	1,990,246
Basic loss per common share	$ (0.13)
Diluted	

Net loss	$ (268)
Weighted average common shares outstanding for basic loss per share	1,990,246
Add: Dilutive effects of assumed exercises of stock options and stock based incentive plan shares	47,834
Average shares and dilutive potential common shares	2,038,080
Diluted loss per common share	$ (0.13)

Stock options for 17,232 shares of common stock were not considered in computing diluted earnings per common share for the three months ended March 31, 2004 because they were antidilutive. All stock options for shares of common stock were considered in computing diluted earnings per common share for the three months ended March 31, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 March 31, 2004	2003
Net loss as reported	$ (268)	$ (1,123)
Deduct: Stock-based compensation expense determined under fair value based method	56	37
Pro forma net loss	$ (324)	$ (1,160)
Basic loss per share as reported	$ (0.13)	$ (0.74)
Pro forma basic loss per share	(0.16)	(0.77)
Diluted loss per share as reported	$ (0.13)	$ (0.74)
Pro forma diluted loss per share	(0.16)	(0.76)

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
Risk-free interest rate	2.89%
Expected option life	6.0 years
Expected stock price volatility	43%
Dividend yield	2.87%

Reclassifications:

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

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 Securities and Exchange Commission, 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 quarter of 2004, the Company continued to execute the plan for growth.

Commercial and commercial real estate loan balances increased 73% during the first quarter of 2004 and totaled $15.9 million at March 31, 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 on April 6, 2004. The Company is a one-third owner of a limited liability company that owns and manages the Fairlawn building. On April 20, 2004, Central Federal Bank, a wholly owned subsidiary of the Company, changed its name to CFBank. The new name keeps the Bank tied to its Central Federal heritage and also serves to underscore the importance of the Company's dedication to being Client Focused and to considering the Community First when making decision that effect the communities in which the Bank conducts business.

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CENTRAL FEDERAL CORPORATION

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The Company continued to sell current originations of long-term fixed-rate mortgages during the first quarter 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 February 2005 through March 2008, protecting the Company from increased funding costs associated with rising interest rates.

Profitability in the first quarter of 2004 was impacted and near-term profitability is expected to continue to be impacted by the occupancy costs of the offices in Fairlawn and Columbus and salaries and employee benefits expense associated with additions to the management team in 2003. 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 may also be negatively impacted by a rise in mortgage interest rates, which may cause 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 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 $114.2 million at March 31, 2004, an increase of $7.2 million or 6.7% 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 $9.6 million at March 31, 2004, an increase of $624,000 or 7.0% from $8.9 million at December 31, 2003 primarily due to cash flows from securities maturities and repayments retained in liquid accounts to be readily available to fund commercial loans.

Securities. Securities available for sale totaled $25.3 million at March 31, 2004, a decrease $1.8 million or 6.6% from $27.1 million at December 31, 2003 primarily due to securities maturities and repayments.

Loans. Loans, net totaled $65.5 million at March 31, 2004, an increase of $7.5 million or 12.8% from $58.0 million at December 31, 2003 primarily due to growth in commercial and commercial real estate loan balances, which increased $6.7 million or 72.8% during the quarter and totaled $15.9 million at March 31, 2004 compared to $9.2 million at December 31, 2003. Mortgage loan balances increased $950,000 or 2.6% during the quarter and totaled $37.6 million at March 31, 2004 compared to $36.7 million at December 31, 2003.

Deposits. Deposits totaled $74.9 million at March 31, 2004, an increase of $1.5 million or 2.1% from $73.4 million at December 31, 2003. The increase was due to $1.1 million growth in savings accounts and $1.2 million growth in checking accounts, primarily commercial checking accounts, partially offset by a $577,000 decline in certificate accounts and a $211,000 decline in money market accounts.

Federal Home Loan Bank advances. Federal Home Loan Bank advances totaled $13.6 million at March 31, 2004, an increase of $6.1 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 $247,000 or 1.2% and totaled $19.6 million at March 31, 2004, compared to $19.9 million at December 31, 2003 primarily due to the net loss for the current quarter. The

Company's capital ratio declined to 17.2% at March 31, 2004 from 18.6% at December 31, 2003 primarily as a result of growth as the Company implements 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 March 31, 2004 and December 31, 2003.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

General. The Company incurred a net loss for the quarter ended March 31, 2004 of $268,000 or $.13 per diluted share, compared to a net loss of $1.1 million or $.74 per diluted share for the quarter ended March 31, 2003. The net loss for the quarter ended March 31, 2003 included $1.8 million in salary and employee benefits expenses related to restructuring of employee benefit plans and payments on agreements with former executives. The loss for the quarter ended March 31, 2004 was primarily due to increased occupancy expense associated with the Fairlawn and Columbus offices and additional salary and employee benefits expense primarily associated with staffing at these offices and additions to the management team in 2003.

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 declined $16,000 or 1.8% during the quarter ended March 31, 2004 to $871,000, compared to $887,000 for the quarter ended March 31, 2003 primarily due to a decline in the yield on interest earning assets partially offset by a decline in cost of interest bearing liabilities. Interest income declined $217,000 or 14.6% to $1.3 million during the first quarter of 2004, compared to $1.5 million during the first quarter of 2003. The decline was primarily due to a decrease in mortgage loan portfolio balances and investment in securities with short-term maturities, and resultant lower yields, in order to reduce interest rate risk and provide liquidity for growth in commercial loans. Growth in commercial loan balances, typically at shorter terms and lower rates than mortgage loans, partially offset the reduced income from the decline in the mortgage portfolio. Interest income on loans decreased $175,000 or 15.3% and totaled $970,000 for the quarter ended March 31, 2004 compared to $1.1 million for the prior year quarter. Average loan balances increased $1.9 million to $62.2 million during the first quarter of 2004 compared to $60.3 million during the first quarter of 2003 primarily due to commercial loan growth, however the average yield on loans declined 135 basis points (bp) to 6.24% during the first quarter of 2004 compared to 7.59% during the first quarter of 2003 reflecting the decline in the mortgage portfolio 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 $45,000 or 15.7% and totaled $242,000 for the quarter ended March 31, 2004 compared to $287,000 for the prior year quarter. Average securities balances increased $3.1 million to $25.9 million during the first quarter of 2004 compared to $22.8 million during the first quarter of 2003, however the average yield on securities declined 111 bp to 3.94% during the first quarter of 2004 compared to 5.05% during the first quarter of 2003 reflecting the lower yield of shorter term securities.

Interest expense declined $201,000 or 33.4% during the quarter ended March 31, 2004 to $400,000 from $601,000 for the quarter ended March 31, 2003 due to a decline in both the average balance and cost of interest bearing liabilities. Interest expense on deposits declined $74,000 or 18.6% and totaled $324,000 for the quarter ended March 31, 2004 compared to $398,000 for the prior year quarter. The average balance of deposits declined $3.5

million and totaled $72.1 million during the quarter ended March 31, 2004 compared to $75.6 million during the prior year quarter primarily due to a decline in certificate of deposit accounts partially offset by growth in commercial deposits. The average cost of deposits declined 31bp to 1.80% during the quarter ended March 31, 2004 from 2.11% 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. Interest expense on FHLB advances and other debt, including subordinated debentures declined $127,000 or 62.6% and totaled $76,000 during the quarter ended March 31, 2004 compared to $203,000 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% partially replaced by FHLB advances and subordinated debentures at lower interest rates. The average balance of FHLB advances and other borrowings, including subordinated debentures declined $174,000 and totaled $14.4 million during the quarter ended March 31, 2004 compared to $14.6 million during the prior year quarter. The average cost of FHLB advances and other borrowings, including subordinated debentures declined 345bp and totaled 2.08% during the quarter ended March 31, 2004 compared to 5.53% during the prior year quarter.

Net interest margin decreased 28bp to 3.60% for the quarter ended March 31, 2004 compared to 3.88% for the quarter ended March 31, 2003. However, the net interest margin for the first quarter of 2004 increased 97bp compared to 2.63% for the fourth quarter of 2003 primarily due to prepayment of the FHLB advances discussed above.

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 $36,000 for the quarter ended March 31, 2004. There was no provision for loan losses in the prior year quarter. The increase primarily reflected growth in the commercial loan portfolio. At March 31, 2004, the allowance for loan losses represented ..67% of total loans compared to .72% at December 31, 2003. Further, nonperforming loans, all of which are nonaccrual loans, totaled $616,000 at March 31, 2004 and $741,000 at December 31, 2003. At March 31, 2004 and December 31, 2003, nonaccrual loans represented .93% and 1.28%, respectively, of the net loan balance. Management believes the allowance for loan losses is adequate to absorb probable losses at March 31, 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 $79,000 to $92,000 in the first quarter of 2004, compared to $171,000 in the first quarter of 2003, primarily due to decreased gains on the sale of loans. Gains on sale of loans totaled $17,000 during the quarter ended March 31, 2004; a decrease of $63,000 from $80,000 during the quarter ended March 31, 2003 due to decreased originations and sales as mortgage interest rates increased 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 market conditions, and increasing mortgage interest rates will likely reduce the Bank's volume of loan originations, sales and resultant gains.

Noninterest expense. Noninterest expense decreased $1.4 million and totaled $1.4 million in the first quarter of 2004, compared to $2.8 million in the first quarter of 2003. Noninterest expense for the quarter ended March 31,

2003 included $1.8 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 quarter ended March 31, 2004 increased $425,000 primarily due to increased staffing and additions to the management team, reflected in salary and employee benefits expense and increased expenses associated with the Fairlawn and Columbus offices, including occupancy, data processing, supplies, depreciation and other expenses.

Income taxes. The income tax benefit associated with the net loss for the quarter ended March 31, 2004 totaled $160,000, a decrease of $429,000 compared to $589,000 for the quarter ended March 31, 2003 due to the smaller net loss in the current 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 consolidated audited 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 March 31, 2004, the Bank exceeded all of its regulatory capital requirements to be considered well-capitalized with a Tier 1 capital level of $14.7 million, or 13.0% of adjusted total assets, which exceeds the required level of $ 5.6 million, or 5.0%; Tier 1 risk-based capital level of $14.7 million, or 19.9% of risk-weighted assets, which exceeds the required level of $4.4 million, or 6.0%; and risk-based capital of $15.2 million, or 20.5% of risk-weighted assets, which exceeds the required level of $7.4 million, or 10.0%.

CENTRAL FEDERAL CORPORATION
Item 3.
CONTROLS AND PROCEDURES

(a) Evaluation of 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 based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c).

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 such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) 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 in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

(b) Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the completion of the evaluation of those controls by the Chief Executive Officer and Principal Financial Officer.

CENTRAL FEDERAL CORPORATION
PART II. - Other Information

Item 1. Legal Proceedings
None

Item 2. Changes in Securities

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Nu Sh U Pu as Pu An Pl Pr
January 1 - 31, 2004	-	-	
February 1 - 29, 2004	-	-	
March 1 - 31, 2004	10,000(1)	$ 13.05	

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(1) shares purchased in an open market transaction.

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit

Number	Exhibit
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 Registration Statement on Form SB-2 and any amendments thereto, Registration No. 333-64089.

Part II. - Other Information

CENTRAL FEDERAL CORPORATION

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

On January 16, 2004, the registrant issued a press release announcing the date of its annual meeting of shareholders on April 20, 2004 and voting record date of February 27, 2004.

On February 26, 2004, the registrant issued a press release announcing financial results for the year ended December 31, 2003.

On March 19, 2004, the registrant issues a press release announcing a quarterly dividend of $.09 per share payable on April 16, 2004 to shareholders of record on April 5, 2004.

CENTRAL FEDERAL CORPORATION
SIGNATURES

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

CENTRAL FEDERAL CORPORATION

Dated: May 14, 2004 By: /s/ David C. Vernon

David C. Vernon

Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Dated: May 14, 2004 By: /s/ Therese Ann Liutkus

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

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