CENTRAL FEDERAL CORP
Form 10QSB
August 15, 2005

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

FORM 10-QSB

(Mark one)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2005

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to ______________

Commission File Number 0-25045

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

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

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

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

(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 29, 2005
Common stock, $0.01 par value	2,243,662 shares

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

CENTRAL FEDERAL CORPORATION
FORM 10-QSB
QUARTER ENDED JUNE 30, 2005
INDEX

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

	June 30, 2005 (unaudited)	December 31, 2004
ASSETS		
Cash and cash equivalents	$ 1,429	$ 32,675
Securities available for sale	35,271	13,508
Loans, net of allowance of $1,242 and $978	108,600	108,149
Federal Home Loan Bank stock	3,866	3,778
Loan servicing rights	302	208
Foreclosed assets, net	112	132
Premises and equipment, net	2,705	2,690
Goodwill	1,749	1,749
Other intangible assets	237	299

Bank owned life insurance	3,469	3,401
Loan sales proceeds receivable	3,526	1,888
Deferred tax asset	1,689	1,491
Accrued interest receivable and other assets	2,137	1,037
	$ 165,092	$ 171,005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 7,222	$ 5,505
Interest bearing	111,151	96,119
Total deposits	118,373	101,624
Federal Home Loan Bank advances	21,045	41,170
Other borrowings	-	2,249
Advances by borrowers for taxes and insurance	236	321
Accrued interest payable and other liabilities	855	979
Subordinated debentures	5,155	5,155
Total liabilities	145,664	151,498
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value; 6,000,000 shares authorized; 2005 - 2,312,195 shares issued, 2004 - 2,294,520 shares issued	23	23
Additional paid-in capital	12,801	12,519
Retained earnings	7,449	8,497
Accumulated other comprehensive income	366	61
Unearned stock based incentive plan shares	(427)	(351)
Treasury stock, at cost (2005 - 68,533 shares, 2004 - 108,671 shares)	(784)	- (1,242)
Total shareholders' equity	19,428	19,507
	$ 165,092	$ 171,005

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 mont June
	2005	2004	2005
Interest and dividend income			
Loans, including fees	$ 1,875	$ 1,071	$ 3,550
Taxable securities	173	210	316

Tax exempt securities	-	7	-
Federal Home Loan Bank stock dividends	46	36	88
Federal funds sold and other	4	48	82
	2,098	1,372	4,036
Interest expense			
Deposits	646	309	1,181
Federal Home Loan Bank advances and other debt	132	80	296
Subordinated debentures	78	52	148
	856	441	1,625
Net interest income	1,242	931	2,411
Provision for loan losses	134	34	352
Net interest income after provision for loan losses	1,108	897	2,059
Noninterest income			
Service charges on deposit accounts	55	31	96
Net gains on sales of loans	96	27	307
Loan servicing fees, net	-	49	7
Net gains (losses) on sales of securities	-	(19)	-
Earnings on bank owned life insurance	34	40	68
Other	28	6	34
	213	134	512
Noninterest expense			
Salaries and employee benefits	877	810	1,784
Occupancy and equipment	120	84	233
Data processing	119	96	243
Franchise taxes	57	57	109
Professional fees	135	127	231
Director fees	42	40	81
Postage, printing and supplies	35	59	97
Advertising and promotion	55	31	98
Telephone	30	23	66
Loan expenses	10	12	19
Foreclosed assets, net	3	(15)	7
Depreciation	107	85	212
Amortization of intangibles	31	-	62
Other	117	74	198
	1,738	1,483	3,440
Loss before income taxes	(417)	(452)	(869)
Income tax benefit	(147)	(168)	(310)
Net loss	$ (270)	$ (284)	$ (559)
Loss per share:			
Basic	$ (0.12)	$ (0.14)	$ (0.25)
Diluted	$ (0.12)	$ (0.14)	$ (0.25)

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	Unearne Based In Plan S
Balance at January 1, 2005	$ 23	$ 12,519	$ 8,497	$ 61	$ (
Comprehensive loss:					
Net loss			(559)		
Other comprehensive income				305	
Total comprehensive loss					
Issuance of stock based incentive plan shares (17,675 shares)		193			(
Recognition of expense for 9,552 stock based incentive plan shares					
Tax benefits from stock based incentive plan shares released		33			
Stock options exercised (40,138 shares)		2	(86)		
Tax benefits from stock options exercised		54			
Cash dividends declared ($.18 per share)			(403)		
Balance at June 30, 2005	$ 23	$ 12,801	$ 7,449	$ 366	$ (

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, 2005	Three months ended June 30, 2004	Six mont June 2005
Net loss	$ (270)	$ (284)	$ (559)

Change in net unrealized gain (loss) on securities available for sale	145	(875)	(67)
Less: Reclassification adjustment for losses later recognized in net income	-	(19)	-
Net unrealized gains and (losses)	145	(856)	(67)
Initial unrealized gain on mortgage-backed securities received in securitization	530	-	530
Tax effect	(230)	291	(158)
Other comprehensive income (loss)	445	(565)	305
Comprehensive income (loss)	$ 175	$ (849)	$ (254)

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 ended Jun	
	2005	2
Cash flows from operating activities	$ (3,077)	$
Cash flows from investing activities		
Net decrease in interest bearing deposits	-	
Available-for-sale securities:		
Sales	-	
Maturities, prepayments and calls	1,079	
Purchases	(4,021)	
Loan originations and payments, net	(19,259)	
Additions to premises and equipment	(229)	
Other	-	
Net cash from investing activities	(22,430)	
Cash flows from financing activities		
Net change in deposits	16,743	
Net change in short-term borrowings from the Federal Home Loan Bank and other	(21,374)	
Proceeds from Federal Home Loan Bank advances and other debt	-	
Repayments on Federal Home Loan Bank advances and other debt	(1,000)	

Net change in advances by borrowers for taxes and insurance	(85)	
Cash dividends paid	(397)	
Proceeds from exercise of stock options	374	
Repurchase of common stock	-	
Net cash from financing activities	(5,739)	
Net change in cash and cash equivalents	(31,246)	
Beginning cash and cash equivalents	32,675	
Ending cash and cash equivalents	$ 1,429	$
Supplemental cash flow information:		
Interest paid	$ 1,571	$
Income taxes paid	-	
Supplemental noncash disclosures:		
Securitization of single-family residential mortgage loans	$ 18,497	$
Transfers from loans to repossessed assets	-	

See accompanying notes to consolidated financial statements.

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

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, 2005 and December 31, 2004 and for the three and six months ended June 30, 2005 and 2004 include all adjustments necessary for a fair presentation of the financial condition and the results of operations for those periods. The financial performance reported for the Company for the three and six months ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Company's Annual Report to Shareholders and Form 10-KSB for the period ended December 31, 2004. Reference is made to the accounting policies of the Company described in Note 1 of the Notes to Consolidated Financial Statements contained in the Company's 2004 Annual Report that was filed as Exhibit 13 to the Form 10-KSB. The Company has consistently followed those policies in preparing this Form 10-QSB.

Operating Segments:

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

Earnings Per Share:

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

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

The factors used in the loss per share computation follow.

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six 2
Basic			
Net loss	$ (270)	$ (284)	$
Weighted average common shares outstanding	2,202,538	1,995,758	2,
Basic loss per common share	$ (0.12)	$ (0.14)	$
Diluted			
Net loss	$ (270)	$ (284)	$
Weighted average common shares outstanding for basic loss per share	2,202,538	1,995,758	2,
Add: Dilutive effects of assumed exercises of stock options and stock based incentive plan shares	-	-	
Average shares and dilutive potential common shares	2,202,538	1,995,758	2,
Diluted loss per common share	$ (0.12)	$ (0.14)	$

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

	Three months ended June 30, 2005	2004	Six 2
Stock options	270,714	288,585	24
Stock based incentive plan shares	32,917	41,073	2

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

Stock Compensation:

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

	Three months ended June 30, 2005	2004	Six months en 2005
Net loss as reported	$ (270)	$ (284)	$ (559)
Deduct: Stock-based compensation expense determined under fair value based method	255	67	300
Pro forma net loss	$ (525)	$ (351)	$ (859)
Basic loss per share as reported	$ (0.12)	$ (0.14)	$ (0.25)
Pro forma basic loss per share	(0.24)	(0.18)	(0.39)
Diluted loss per share as reported	$ (0.12)	$ (0.14)	$ (0.25)
Pro forma diluted loss per share	(0.24)	(0.18)	(0.39)

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, 2005	2004	Six months 2005
Risk-free interest rate	3.84%	3.24%	3.84
Expected option life (years)	6	6	6
Expected stock price volatility	27%	21%	27
Dividend yield	3.45%	2.74%	3.45

Weighted average fair value of options granted during the period	$ 2.28	$ 2.31	$ 2.28

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

On June 23, 2005, the Board of Directors approved the accelerated vesting of all unvested stock options awarded prior to 2005 to eligible participants under the 1999 Stock Based Incentive Plan and the 2003 Equity Compensation Plan. As a result of the acceleration, unvested options granted in 2003 and 2004 to acquire 102,000 shares of the registrant's common stock, which otherwise would have vested on various dates thru January 16, 2008, became immediately exercisable. All other terms and conditions applicable to options granted under these plans, including the exercise prices and the number of shares subject to the accelerated options, are unchanged.

The decision to accelerate the vesting of these options was related to the issuance of Statement of Financial Accounting Standard No. 123 (revised 2004), Share Based Payment ("SFAS 123R"). In accordance with the provisions of SFAS 123R, the registrant will adopt the pronouncement on January 1, 2006 and believes the above-mentioned acceleration of vesting will eliminate compensation expense related to these options of approximately $115 and $33 in 2006 and 2007. The total expense is reflected in the pro forma footnote disclosure above, as permitted under the transition guidance provided by the Financial Accounting Standards Board. As a result of the acceleration of the vesting of these options, the Company currently has no options which will be unvested at January 1, 2006. Future option grants will be accounted for in accordance with SFAS 123R.

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
(Dollars in thousands except per share data)

NOTE 2 - SECURITIES

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses

June 30, 2005			
Federal agency	$ 5,941	$ 9	$ (75)
Mortgage-backed	28,322	681	(63)
Municipal	1,008	3	-
Total	$ 35,271	$ 693	$ (138)
December 31, 2004			
Federal agency	$ 4,983	$ 2	$ (37)
Mortgage-backed	8,525	195	(68)
Total	$ 13,508	$ 197	$ (105)

Sales of available for sale securities were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Proceeds	$ -	$ 3,952	$ -	$ 3,952
Gross gains	-	41	-	41
Gross losses	-	(60)	-	(60)

The tax (benefit) provision related to these net realized gains and losses was ($6) for 2004.

The fair value of debt securities at June 30, 2005 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available for Sale Fair Value
Due from one to five years	$ 6,949
Mortgage-backed	28,322
Total	$ 35,271

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

NOTE 2 - SECURITIES (Continued)

Securities with a carrying amount of $19,233 and $770 at June 30, 2005 and December 31, 2004 were pledged to secure Federal Home Loan Bank advances. At June 30, 2005 and December 31, 2004, there were no holdings of securities of any one issuer, other than federal agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at June 30, 2005 and December 31, 2004, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unre L
June 30, 2005						
Federal agency	$ 4,941	$ (75)	$ -	$ -	$ 4,941	$
Mortgage-backed	1,012	(10)	2,242	(53)	3,254	
Total temporarily impaired	$ 5,953	$ (85)	$ 2,242	$ (53)	$ 8,195	$
December 31, 2004						
Federal agency	$ 3,976	$ (37)	$ -	$ -	$ 3,976	$
Mortgage-backed	700	(1)	2,476	(67)	3,176	
Total temporarily impaired	$ 4,676	$ (38)	$ 2,476	$ (67)	$ 7,152	$

Unrealized losses on the above securities have not been recognized in income because the issuers of the bonds are all federal agencies and the decline in fair value is temporary and largely due to changes in market interest rates. The fair value is expected to recover as the bonds approach their maturity date and/or market rates decline.

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

NOTE 3 - LOANS

Loans were as follows:

	June 30, 2005	December 31, 2004

(Dollars in thousands except per share data)

Commercial	$ 12,544	$ 7,030
Real estate:		
Single-family residential	21,851	41,450
Multi-family residential	30,310	25,602
Commercial	27,111	20,105
Construction	-	1,127
Consumer	18,185	13,952
Subtotal	110,001	109,266
Less: Net deferred loan fees	(159)	(139)
Allowance for loan losses	(1,242)	(978)
Loans, net	$ 108,600	$ 108,149

Activity in the allowance for loan losses was as follows:

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Beginning balance	$ 1,110	$ 440	$ 978	$ 415
Provision for loan losses	134	34	352	70
Loans charged-off	(8)	(16)	(117)	(28)
Recoveries	6	7	29	8
Ending balance	$ 1,242	$ 465	$ 1,242	$ 465

Impaired loans were not material for any period presented.

Nonperforming loans were as follows:

	June 30, 2005	December 31, 2004
Loans past due over 90 days still on accrual	$ -	$ -
Nonaccrual loans	603	286

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. There were no nonperforming commercial, commercial real estate or multi-family loans at June 30, 2005 or December 31, 2004.

NOTE 4 - SECONDARY MORTGAGE MARKET ACTIVITIES

(Dollars in thousands except per share data)

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans were $43,884 and $27,319 at June 30, 2005 and December 31, 2004.

Custodial escrow balances maintained in connection with serviced loans were $255 and $282 at June 30, 2005 and December 31, 2004.

Activity for capitalized mortgage servicing rights and the related valuation allowance follows:

	Three months ended June 30,		Six months ended June 3	
	2005	2004	2005	2004
Servicing rights:				
Beginning of period	$ 198	$ 207	$ 208	$
Additions	120	3	120	
Amortized to expense	(9)	(2)	(21)	
Provision for loss in fair value	(7)	29	(5)	
End of period	$ 302	$ 237	$ 302	$
Valuation allowance:				
Beginning of period	$ 18	$ 43	$ 20	$
Additions expensed	7	-	5	
Reductions credited to expense	-	(29)	-	
End of period	$ 25	$ 14	$ 25	$

The fair value of capitalized mortgage servicing rights was $307 and $213 at June 30, 2005 and December 31, 2004. Fair value was determined using a 10% discount rate and prepayment speeds ranging from 200% to 478%, depending on the stratification of the specific right.

Estimated amortization expense for the next five years:

June 30, 2006	$ 73
June 30, 2007	73
June 30, 2008	73
June 30, 2009	73
June 30, 2010	35

NOTE 5 - SECURITIZATON

On June 30, 2005, the Company securitized single-family residential mortgage loans with an outstanding principal balance of $18.6 million, formerly held in its portfolio, with Freddie Mac. The Company continues to hold the securities and service the loans. The Company receives annual servicing fees of 0.25 percent of the outstanding balance. Since the Company cannot de-securitize the securities to get back the loans, the securitization is not considered a sale or transfer under SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, but an exchange of loans for securities under SFAS No. 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise and SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities because the Company received the beneficial interest in the loans it transferred to Freddie Mac. As such, the mortgage backed securities were recorded at the cost of the loans and were classified as "available for sale" with the $530,000 initial unrealized gain reported in other comprehensive income.

(Dollars in thousands except per share data)

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were as follows.

	June 30, 2005	December 31,
Maturity July 2005 at 3.53% floating rate	$ 9,775	$
Maturity January 2005 at 2.20% floating rate	-	2
Maturities September 2005 thru September 2008, fixed at rates from 1.78% to 3.41%, averaging 2.81% at June 30, 2005, and maturities March 2005 thru September 2008, fixed at rates from 1.50% to 3.41%, averaging 2.70% at December 31, 2004	11,270	1
Total	$ 21,045	$ 4

Fixed rate advances are due in full at their maturity date, with a penalty if prepaid. Floating rate advances can be prepaid at any time with no penalty.

The advances were collateralized as follows.

	June 30, 2005
First mortgage loans under a blanket lien arrangement	$ 22,065
Second mortgage loans	785
Multi-family mortgage loans	13,375
Home equity lines of credit	5,230
Commercial real estate loans	18,844
Securities	19,233

Total	$ 79,532

Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to $43,702 at June 30, 2005.

Required payments over the next five years are:

June 30, 2006	
June 30, 2007	
June 30, 2008	
June 30, 2009	
Total	

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

NOTE 7 - SEGMENT INFORMATION

The Company manages and operates two reportable segments: banking and mortgage services. Loans, securities, deposits and servicing fees provide the revenue in the banking operation, and loan sales provide the revenues in mortgage services. Parent and Other included activities that are not directly attributed to the reportable segments, and is comprised of the Parent Company and elimination entries between all segments.

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

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

	Banking	Mortgage Services	Parent and Other
Three months ended June 30, 2005			
Net interest income (expense)	$ 1,303	$ 16	$ (77)
Provision for loan losses	(134)	-	-
Other revenue	98	96	19
Other expense	(1,411)	(238)	(89)
Loss before income tax	(144)	(126)	(147)

Income tax benefit	(51)	(47)	(49)
Net loss	$ (93)	$ (79)	$ (98)
Six months ended June 30, 2005			
Net interest income (expense)	$ 2,546	$ 12	$ (147)
Provision for loan losses	(352)	-	-
Other revenue	185	307	20
Other expense	(2,761)	(496)	(183)
Loss before income tax	(382)	(177)	(310)
Income tax benefit	(145)	(60)	(105)
Net loss	$ (237)	$ (117)	$ (205)
June 30, 2005			
Segment assets	$ 163,000	$ 2,013	$ 79

18.

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

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

FORWARD-LOOKING STATEMENTS

When used in this Form 10-QSB, or in future filings with the SEC, in press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Company's actual results to be materially different from those indicated. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the market areas where the Company conducts business, which could materially impact credit quality trends, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the market areas where the Company conducts business, and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

GENERAL

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

MANAGEMENT STRATEGY

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

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

Commercial, commercial real estate and multi-family loans increased $17.3 million or 32.8% in the first half of 2005 and totaled $70.0 million at June 30, 2005. Home equity lines of credit increased $5.5 million or 93.2% in the first half of 2005 and totaled $11.4 million at June 30, 2005. Deposits increased $16.8 million or 16.5% during the first six months of 2005 and totaled $118.4 million at June 30, 2005.

This growth positively impacted the Company's net interest income which increased 33.4% and 33.8% and totaled $1.2 million and $2.4 million for the three and six months ended June 30, 2005 compared to $931,000 and $1.8 million for the prior year periods.

On June 30, 2005, the Company securitized single-family residential mortgage loans with an outstanding principal balance of $18.6 million, formerly held in its portfolio, with Freddie Mac. The Company continues to hold the securities and service the loans. The securitization increased liquidity as the securities retained are readily marketable, eliminated credit risk on the loans and reduced the bank's risk-based capital requirement. As a result of the securitization, net single-family residential mortgage loan balances declined $18.5 million, the loan servicing asset increased $120,000 and securities available for sale increased $18.9 million. The unrealized gain on the securities at June 30, 2005 was $530,000 which increased the Company's capital by $350,000.

Profitability in the first half of 2005 was impacted by, and near-term profitability is expected to continue to be impacted by provisions for loan losses resulting from increased commercial, commercial real estate and multi-family residential lending and expenses associated with management, technology and physical resources necessary to support our strategic growth plan. Current projections indicate profitable operations in 2006 that are significantly dependent on the Company's ability to continue to grow. Expenses associated with management, improvements to technology and additional offices which were essential for the Company's expansion into business and financial services require the support of a larger asset base and resultant increased earnings to achieve profitability.

Profitability during the first half of 2005 was also negatively impacted by pretax operating losses of Reserve Mortgage Services (Reserve), the Company's mortgage services division. The Company expected Reserve performance to be accretive to earnings, but lower than projected loan origination volumes have resulted in losses. Goodwill totaling $1.7 million resulted from the Reserve acquisition and represented the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Due to operating losses of Reserve, goodwill was tested for impairment at June 30, 2005 and management believes there was no impairment at that date. The assessment of impairment is significantly dependent on estimates of Reserve's future performance. Should circumstances change, any impairment will be recognized in the period identified. See "Critical Accounting Policies" for additional discussion.

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, 2005 and December 31, 2004. Continued operating losses may cause the Bank's capital ratios to fall below the well-capitalized levels of regulatory capital, which may require the Company to raise additional capital to be infused into the Bank. In a press release on June 24, 2005, the Company reported that the Board of Directors anticipates the need to retain capital as the Company continues to invest and position itself for growth and increased profitability and indicated that the Board had considered reducing the dividend and advised that payment of the dividend would continue to be evaluated. The Company's common stock has historically yielded a dividend of $.09 per quarter, or $.36 per year.

Other than described above, 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 or any current recommendations by its regulators which would have a material effect if implemented.

FINANCIAL CONDITION

General. Total assets at December 31, 2004 included $30.0 million in overnight investments at a positive spread to the Federal Home Loan Bank advances used to fund the investment. Approximately $30.0 million in overnight FHLB advances at a cost of between 1.50% and 2.50% was borrowed and placed in overnight investments earning 2.50% during the last half of 2004 and first quarter of 2005. As short term interest rates increased and the spread between the earnings on the investment and cost of borrowing declined, the cash was withdrawn to repay the advances during the first quarter of 2005. The $5.9 million decline in total assets to $165.1 million at June 30, 2005

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

from $171.0 million at December 31, 2004 was the result of the $30.0 million reduction in cash and borrowings associated with the arbitrage transaction offset by $17.3 million growth in commercial loans and $5.5 million growth in home equity lines of credit. Loan growth was funded by deposits, which increased $16.8 million, and FHLB advances, which increased $9.9 million after the repayment associated with the arbitrage transaction.

Cash and cash equivalents. Cash and cash equivalents totaled $1.4 million at June 30, 2005, a decline of $31.3 million from $32.7 million at December 31, 2004 due to the use of cash to repay FHLB advances as discussed above.

Securities. Securities available for sale totaled $35.3 million at June 30, 2005, an increase of $21.8 million from $13.5 million at December 31, 2004 due to the securitization transaction, discussed above.

Loans. Loans totaled $108.6 million at June 30, 2005 compared to $108.1 million at December 31, 2004. Single-family residential loan balances declined $19.6 million and totaled $21.9 million at June 30, 2005 due to the securitization discussed above. Not considering the securitization transaction, overall loan balances increased 17.5%. Commercial loan balances, which include multi-family and commercial real estate loans, increased $17.3 million and totaled $70.0 million at June 30, 2005 compared to $52.7 million at December 31, 2004 as the Company continued to focus on commercial lending. Total consumer loan balances increased $4.2 million due to the growth in home equity lines of credit mentioned above.

Deposits. Deposits increased $16.8 million or 16.5% during the first six months of 2005 and totaled $118.4 million at June 30, 2005 compared to $101.6 million at December 31, 2004. The increase was due to growth of $13.9 million in certificate of deposit accounts and $4.3 million in demand deposit accounts, largely commercial checking accounts. Traditional savings account balances declined $1.4 million.

Federal Home Loan Bank advances. FHLB advances totaled $21.0 million at June 30, 2005, a decline of $20.2 million from $41.2 million at December 31, 2004 due to repayment of borrowings associated with the arbitrage transaction, discussed above, and use of additional advances to fund loan growth.

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

Shareholders' equity. Total shareholders' equity declined 0.5% during the first half of 2005 and totaled $19.4 million at June 30, 2005 compared to $19.5 million at December 31, 2004 due to the net loss and dividends during the period. The decline was offset by the $350,000 after tax unrealized gain on the securities retained in the securitization and $374,000 in proceeds from the exercise of stock options. The Company's capital position increased to 11.8% at June 30, 2005 compared to 11.4% at December 31, 2004.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2005 AND 2004

General. The Company incurred a net loss for the quarter ended June 30, 2005 of $270,000 or $.12 per diluted share compared to a net loss of $284,000 or $.14 per diluted share for the quarter ended June 30, 2004. The loss for the current year quarter was due to provisions for loan losses, expenses associated with management, technology and physical resources necessary to support the Company's strategic growth plan and $126,000 pretax operating losses of Reserve.

Net interest income. Net interest income increased 33.4% to $1.2 million for the quarter ended June 30, 2005 from $931,000 in the prior year quarter due to growth in assets in accordance with the Company's growth plan. Both the volume and yield on interest-earning assets increased in the second quarter of 2005 compared to the prior year

quarter. The resultant growth in interest income was partially offset by increased interest expense related to funding loan growth due to an increase in volume and cost of interest-bearing liabilities during the current year quarter.

Average interest earning assets increased $32.2 million or 28.7% to $144.4 million in the second quarter of 2005 from $112.2 million in the second quarter of 2004 due to loan growth pursuant to the Company's strategy to expand into business financial services in the Fairlawn and Columbus, Ohio markets. The yield on interest earning assets increased 92 basis points (bp) to 5.82% in the second quarter of 2005 from 4.90% in the prior year quarter reflecting higher yields on commercial, commercial real estate and multi-family loans. Interest income increased $726,000 or 52.9% to $2.1 million in the second quarter of 2005 from $1.4 million in the prior year quarter due to growth in interest income on loans, which increased $804,000 or 75.1% to $1.9 million for the quarter ended June 30, 2005 from $1.1 million in the prior year quarter. Average loan balances increased $45.7 million, or 63.8% to $117.3 million in the second quarter of 2005 from $71.6 million in the prior year quarter and the average yield on loans increased 41 bp to 6.39% in the second quarter of 2005 from 5.98% in the prior year quarter due to commercial, commercial real estate and multi-family mortgage loan growth.

Average interest-bearing liabilities increased $31.7 million or 31.2% to $133.2 million in the second quarter of 2005 from $101.5 million in the second quarter of 2004 due to growth in deposits used to fund loan growth. The average cost of interest-bearing liabilities increased 83 bp or 47.7% to 2.57% in the second quarter of 2005 from 1.74% in the second quarter of 2004 primarily due to higher short-term interest rates in the current year quarter which resulted in both higher deposit and borrowing costs. Interest expense on deposits increased $337,000 or 109.1% to $646,000 for the quarter ended June 30, 2005 from $309,000 in the prior year quarter. Average deposit balances increased $34.3 million or 46.0% to $108.9 million in the quarter ended June 30, 2005 from $74.6 million in the prior year quarter due to an increase in certificate of deposit and commercial deposit accounts. The average cost of deposits increased 71 bp to 2.37% in the quarter ended June 30, 2005 from 1.66% in the prior year quarter. Interest expense on FHLB advances and other debt, including subordinated debentures increased $78,000 to $210,000 in the quarter ended June 30, 2005 from $132,000 in the prior year quarter due to a 150 bp increase in borrowing costs to 3.46% in the second quarter of 2005 from 1.96% in the prior year quarter.

Net interest margin increased 11 bp to 3.44% for the quarter ended June 30, 2005 compared to 3.33% in the prior year quarter.

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

Based on management's review, the provision for loan losses increased $100,000 to $134,000 in the second quarter of 2005 from $34,000 in the prior year quarter. The Company's strategy to expand into business financial services and the significant growth in commercial, commercial real estate and multi-family mortgage loans that resulted from that strategy required an increase in the provision and allowance for loan losses related to these loan types. At June 30, 2005, the allowance for commercial, commercial real estate and multi-family mortgage loans totaled $1.1 million or 91.2% of the total allowance for loan losses, compared to $325,000 or 69.9% at June 30, 2004. At June 30, 2005, the allowance for loan losses on all loan types represented 1.1% of total loans compared to .6% at June 30, 2004. Nonperforming loans, all of which are nonaccrual loans, increased $317,000 to $603,000 or .6% of total loans at June 30, 2005 compared to $286,000 or .3% of total loans at December 31, 2004 due to an increase in delinquent single-family mortgage loans. More than 95% of the nonaccrual loan balances are secured by single-family homes in

the Company's primary market area. Management believes the allowance for loan losses is adequate to absorb probable incurred credit losses in the loan portfolio at June 30, 2005, however future additions to the allowance may be necessary based on changes in economic conditions and the factors discussed in the previous paragraph.

Noninterest income. Noninterest income increased $79,000 or 59.0% to $213,000 in the second quarter of 2005 from $134,000 in the second quarter of 2004 due to increased gains on sales of loans in the current year quarter. Gains on sales of loans increased $69,000 or 255.6% to $96,000 in the current year quarter from $27,000 in the prior year period due to mortgage originations and sales from Reserve. The Company sells loans on a servicing released basis.

Noninterest expense. Noninterest expense increased $255,000 to $1.7 million in the second quarter of 2005 from $1.5 million in the prior year period due to operating costs of Reserve which totaled $238,000, including $31,000 amortization of intangible assets during the current year quarter compared to none in the prior year period as the acquisition of Reserve was completed in October 2004.

Income taxes. The income tax benefit associated with the pretax loss for the quarter ended June 30, 2005 totaled $147,000, comparable to the $168,000 tax benefit in the prior year quarter.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

General. The Company incurred a net loss for the six months ended June 30, 2005 of $559,000 or $.25 per diluted share, compared to a net loss of $552,000 or $.28 per diluted share for the six months ended June 30, 2004. The loss for the current year period was due to provisions for loan losses, expenses associated with management, technology and physical resources necessary to support the Company's strategic growth plan and $177,000 pretax operating losses of Reserve.

Net interest income. Net interest income increased 33.8% to $2.4 million for the six months ended June 30, 2005 from $1.8 million in the prior year period due to growth in assets in accordance with the Company's growth plan. Both the volume and yield on interest-earning assets increased in the first half of 2005 compared to the prior year period. The resultant growth in interest income was partially offset by increased interest expense related to funding loan growth due to an increase in volume and cost of interest-bearing liabilities in the current year period.

Average interest earning assets increased $38.9 million or 37.0% to $144.1 million in the first half of 2005 from $105.2 million in the first half of 2004 due to loan growth pursuant to the Company's strategy to expand into business financial services in the Fairlawn and Columbus, Ohio markets. The yield on interest earning assets increased 55 bp to 5.60% in the first half of 2005 from 5.05% in the prior year period reflecting higher yields on commercial, commercial real estate and multi-family loans. Interest income increased $1.4 million or 52.7% to $4.0 million in the first half of 2005 from $2.6 million in the prior year period due to growth in interest income on loans, which increased $1.5 million or 73.9% to $3.5 million for the six months ended June 30, 2005 from $2.0 million in the prior year period. Average loan balances increased $48.3 million, or 72.2% to $115.2 million in the first half of 2005 from $66.9 million in the prior year period and the average yield on loans increased 6 bp to 6.16% in the first half of 2005 from 6.10% in the prior year period due to commercial, commercial real estate and multi-family mortgage loan growth.

Average interest-bearing liabilities increased $38.6 million or 41.1% to $132.6 million in the first half of 2005 from $94.0 million in the first half of 2004 due to growth in deposits and borrowings used to fund loan growth. The average cost of interest-bearing liabilities increased 66 bp or 36.9% to 2.45% in the first half of 2005 from 1.79% in prior year period primarily due to higher short-term interest rates in the current year period which resulted in both higher deposit and borrowing costs. Interest expense on deposits increased $548,000 or 86.6% to $1.2 million for the six months ended June 30, 2005 from $633,000 in the prior year period. Average deposit balances increased $32.2 million or 43.9% to $105.5 million in the six months ended June 30, 2005 from $73.3 million in the prior year period due to an increase in certificate of deposit and commercial deposit accounts. The average cost of deposits

increased 51 bp to 2.24% in the six months ended June 30, 2005 from 1.73% in the prior year period. Interest expense on FHLB advances and other debt, including subordinated debentures increased $236,000 to $444,000 in the six months ended June 30, 2005 from $208,000 in the prior year period due to a 127 bp increase in borrowing costs to 3.28% in the first half of 2005 from 2.01% in the prior year quarter.

Net interest margin decreased 10 bp to 3.35% for the six months ended June 30, 2005 compared to 3.45% in the prior year period.

Provision for loan losses. Based on management's review of the factors and market conditions discussed above, the provision for loan losses increased $282,000 to $352,000 in the first half of 2005 from $70,000 in the prior year period. The provision for loan losses reflects growth in commercial, commercial real estate and multi-family loans in the current year period as discussed previously.

Noninterest income. Noninterest income increased $286,000 or 126.5% to $512,000 in the first half of 2005 from $226,000 in the first half of 2004 due to mortgage originations and sales from Reserve which resulted in $307,000 in gains on sales of loans in the six months ended June 30, 2005, a $263,000 increase from $44,000 in the prior year period.

Noninterest expense. Noninterest expense increased $602,000 to $3.4 million in the first half of 2005 from $2.8 million in the prior year period due to operating costs of Reserve which totaled $496,000, including $62,000 amortization of intangible assets during the current year period compared to none in the prior year period as the acquisition of Reserve was completed in October 2004. The current year period also included $37,500 costs related to the reverse stock split transaction which was abandoned by the Board in March 2005. The Company moved to its new headquarters and CFBank location in Fairlawn in April 2004, and occupancy expenses related to the facility increased approximately $56,000 during the six months ended June 30, 2005 compared to the prior year period.

Income taxes. The income tax benefit associated with the pretax loss for the six months ended June 30, 2005 totaled $310,000, comparable to the $328,000 tax benefit in the prior year period.

CRITICAL ACCOUNTING POLICIES

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

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

the Company's 2004 Annual Report to Shareholders incorporated by reference into the Company's 2004 Annual Report on Form 10-KSB, Note 1 (Summary of Significant Accounting Policies) and Note 4 (Loans).

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

Another critical accounting policy relates to the valuation of goodwill and the assessment of impairment. Goodwill is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill totaling $1.7 million resulted from the Reserve acquisition and represented the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Due to operating losses of Reserve, goodwill was tested for impairment at June 30, 2005 and management believes there was no impairment at that date. The assessment of impairment is significantly dependent on estimates of Reserve's future performance. Should circumstances change, any impairment will be recognized in the period identified. Additional information is included in the notes to the consolidated financial statements in the Company's 2004 Annual Report to Shareholders incorporated by reference into the Company's 2004 Annual Report on Form 10-KSB, Note 1 (Summary of Significant Accounting Policies) and Note 2 (Business Combination).

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

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

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

At June 30, 2005, the Bank exceeded all of its regulatory capital requirements to be considered well-capitalized with a Tier 1 capital level of $13.4 million, or 8.2% of adjusted total assets, which exceeds the required level of $8.2 million, or 5.0%; Tier 1 risk-based capital level of $13.4 million, or 9.9% of risk-weighted assets, which exceeds the required level of $8.1 million, or 6.0%; and risk-based capital of $14.7 million, or 10.8% of risk-weighted assets, which exceeds the required level of $13.6 million, or 10.0%.

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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 Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

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

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 of shareholders on May 29, 2005. Results of shareholder voting were as follows:

a. Election of Directors:

	William R. Downing	Gerry W. Grace
Term of office	Three years	Three years
For	1,745,367	1,760,218
Withheld	76,929	62,078

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

Jeffrey W. Aldrich
Mark S. Allio
Thomas P. Ash
David C. Vernon
Jerry F. Whitmer

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

For 983,298
Against 164,070
Abstain 4,830
Broker non-votes 670,098

b. Ratification of the appointment of Crowe Chizek and Company LLC as independent auditors of the Company for the year ending December 31, 2005:

For 1,790,284
Against 25,225
Abstain 6,787

Item 6. Exhibits

(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 and 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.

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 15, 2005

By: /s/ Mark S. Allio

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

Dated: August 15, 2005

By: /s/ Therese Ann Liutkus

Therese Ann Liutkus, CPA
Treasurer and Chief Financial Officer