

CENTRAL FEDERAL CORP
Form 10-Q
August 13, 2008

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark one)

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

For the quarterly period ended June 30, 2008

TRANSITION REPORT PURSUANT TO 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 registrant 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

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

As of July 31, 2008, there were 4,102,662 shares of the registrant's Common Stock outstanding.

CENTRAL FEDERAL CORPORATION
FORM 10-Q
QUARTER ENDED JUNE 30, 2008
INDEX

| | Page |
|--|------|
| <u>PART I. Financial Information</u> | |
| <u>Item 1. Financial Statements (Unaudited)</u> | |
| <u>Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007</u> | 3 |
| <u>Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007</u> | 4 |
| <u>Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2008</u> | 5 |
| <u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2008 and 2007</u> | 6 |
| <u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007</u> | 7 |
| <u>Notes to Consolidated Financial Statements</u> | 8 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 18 |
| <u>Item 4T. Controls and Procedures</u> | 25 |
| <u>PART II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 26 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 26 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 26 |
| <u>Item 6. Exhibits</u> | 27 |
| <u>Signatures</u> | 28 |
| <u>EX-11.1</u> | |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |

Table of Contents

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

| | June 30, 2008 (unaudited) | December 31, 2007 |
|--|---------------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 3,607 | \$ 3,894 |
| Securities available for sale | 26,182 | 28,398 |
| Loans held for sale | 1,805 | 457 |
| Loans, net of allowance of \$2,947 and \$2,684 | 230,823 | 230,475 |
| Federal Home Loan Bank stock | 2,081 | 1,963 |
| Loan servicing rights | 134 | 157 |
| Foreclosed assets, net | 123 | 86 |
| Premises and equipment, net | 5,404 | 5,717 |
| Bank owned life insurance | 3,832 | 3,769 |
| Deferred tax asset | 1,865 | 1,995 |
| Accrued interest receivable and other assets | 2,766 | 2,671 |
| | \$ 278,622 | 279,582 |
| | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Deposits | | |
| Noninterest bearing | \$ 13,458 | \$ 12,151 |
| Interest bearing | 185,485 | 182,157 |
| Total deposits | 198,943 | 194,308 |
| Federal Home Loan Bank advances | 46,775 | 49,450 |
| Advances by borrowers for taxes and insurance | 94 | 154 |
| Accrued interest payable and other liabilities | 1,689 | 3,136 |
| Subordinated debentures | 5,155 | 5,155 |
| Total liabilities | 252,656 | 252,203 |
| Shareholders equity | | |
| Preferred stock, 1,000,000 shares authorized; none issued | | |
| Common stock, \$.01 par value; 6,000,000 shares authorized; 2008 - 4,661,195 shares issued, 2007 - 4,628,320 shares issued | 47 | 46 |
| Additional paid-in capital | 27,388 | 27,348 |
| Retained earnings | 1,326 | 1,411 |
| Accumulated other comprehensive income | 111 | 187 |
| Treasury stock, at cost; 2008 - 468,533 shares, 2007 - 193,533 shares | (2,906) | (1,613) |
| Total shareholders equity | 25,966 | 27,379 |

\$ 278,622 \$ 279,582

See accompanying notes to consolidated financial statements.

3.

Table of Contents

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Interest and dividend income | | | | |
| Loans, including fees | \$ 3,732 | \$ 3,776 | \$ 7,709 | \$ 7,314 |
| Securities | 338 | 400 | 693 | 776 |
| Federal Home Loan Bank stock dividends | 27 | 32 | 53 | 72 |
| Federal funds sold and other | 3 | 2 | 4 | 6 |
| | 4,100 | 4,210 | 8,459 | 8,168 |
| Interest expense | | | | |
| Deposits | 1,450 | 1,718 | 3,225 | 3,387 |
| Federal Home Loan Bank advances and other debt | 358 | 541 | 798 | 922 |
| Subordinated debentures | 73 | 106 | 173 | 212 |
| | 1,881 | 2,365 | 4,196 | 4,521 |
| Net interest income | 2,219 | 1,845 | 4,263 | 3,647 |
| Provision for loan losses | 260 | 107 | 484 | 142 |
| Net interest income after provision for loan losses | 1,959 | 1,738 | 3,779 | 3,505 |
| Noninterest income | | | | |
| Service charges on deposit accounts | 87 | 68 | 169 | 125 |
| Net gains on sales of loans | 61 | 97 | 97 | 172 |
| Loan servicing fees, net | 7 | 9 | 18 | 30 |
| Net gain on sales of securities | 21 | | 44 | |
| Earnings on bank owned life insurance | 34 | 32 | 63 | 64 |
| Other | 7 | 4 | 17 | 19 |
| | 217 | 210 | 408 | 410 |
| Noninterest expense | | | | |
| Salaries and employee benefits | 997 | 951 | 2,045 | 2,014 |
| Occupancy and equipment | 112 | 123 | 218 | 242 |
| Data processing | 145 | 149 | 290 | 283 |
| Franchise taxes | 84 | 69 | 166 | 138 |
| Professional fees | 95 | 105 | 165 | 193 |
| Director fees | 34 | 38 | 68 | 75 |
| Postage, printing and supplies | 44 | 42 | 95 | 93 |

Edgar Filing: CENTRAL FEDERAL CORP - Form 10-Q

| | | | | |
|----------------------------|---------|---------|---------|---------|
| Advertising and promotion | 15 | 72 | 27 | 96 |
| Telephone | 22 | 24 | 44 | 53 |
| Loan expenses | 1 | 2 | 8 | 7 |
| Foreclosed assets, net | 9 | 4 | 8 | 10 |
| Depreciation | 176 | 154 | 351 | 297 |
| Other | 132 | 98 | 227 | 182 |
| | 1,866 | 1,831 | 3,712 | 3,683 |
| Income before income taxes | 310 | 117 | 475 | 232 |
| Income tax expense | 86 | 33 | 127 | 63 |
| Net income | \$ 224 | \$ 84 | \$ 348 | \$ 169 |
| Earnings per share: | | | | |
| Basic | \$ 0.05 | \$ 0.02 | \$ 0.08 | \$ 0.04 |
| Diluted | \$ 0.05 | \$ 0.02 | \$ 0.08 | \$ 0.04 |

See accompanying notes to consolidated financial statements.

4.

Table of Contents

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 | Treasury Stock | Total Shareholders Equity |
|--|-----------------|----------------------------------|----------------------|---|-------------------|---------------------------------|
| Balance at January 1, 2008 | \$ 46 | \$ 27,348 | \$ 1,411 | \$ 187 | \$ (1,613) | \$ 27,379 |
| Comprehensive income: | | | | | | |
| Net income | | | 348 | | | 348 |
| Other comprehensive loss | | | | (76) | | (76) |
| Total comprehensive income | | | | | | 272 |
| Issuance of 32,875 stock based incentive plan shares | 1 | | | | | 1 |
| Release of 10,996 stock based incentive plan shares | | 63 | | | | 63 |
| Tax benefits from dividends on unvested stock based incentive plan shares | | 1 | | | | 1 |
| Tax effect from vesting of stock based incentive plan shares | | (33) | | | | (33) |
| Stock option expense | | 9 | | | | 9 |
| Purchase of 275,000 treasury shares at \$4.70 per share | | | | | (1,293) | (1,293) |
| Cash dividends declared (\$.10 per share) | | | (433) | | | (433) |
| Balance at June 30, 2008 | \$ 47 | \$ 27,388 | \$ 1,326 | \$ 111 | \$ (2,906) | \$ 25,966 |

See accompanying notes to consolidated financial statements.

5.

Table of Contents

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

| | Three months ended | | Six months ended | |
|--|--------------------|----------|------------------|---------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net income | \$ 224 | \$ 84 | \$ 348 | \$ 169 |
| Change in net unrealized gain (loss) on securities available for sale | (487) | (371) | (72) | (282) |
| Less: Reclassification adjustment for gains later recognized in net income | (21) | | (44) | |
| Net unrealized gain (loss) | (508) | (371) | (116) | (282) |
| Tax effect | 174 | 126 | 40 | 96 |
| Other comprehensive loss | (334) | (245) | (76) | (186) |
| Comprehensive income (loss) | \$ (110) | \$ (161) | \$ 272 | \$ (17) |

See accompanying notes to consolidated financial statements.

6.

Table of Contents

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

| | Six months ended June 30, | |
|--|------------------------------|----------|
| | 2008 | 2007 |
| Cash flows from operating activities | \$ (1,658) | \$ 1,984 |
| Cash flows from investing activities | | |
| Available-for-sale securities: | | |
| Sales | 1,053 | |
| Maturities, prepayments and calls | 7,121 | 3,209 |
| Purchases | (5,963) | (4,873) |
| Loan originations and payments, net | (916) | (19,370) |
| Loans purchased | | (5,145) |
| Proceeds from redemption of FHLB stock | | 850 |
| Purchase of FHLB stock | (65) | |
| Additions to premises and equipment | (38) | (2,042) |
| Proceeds from the sale of premises and equipment | 2 | 9 |
| Proceeds from the sale of foreclosed assets | 86 | |
| Net cash from investing activities | 1,280 | (27,362) |
| Cash flows from financing activities | | |
| Net change in deposits | 4,564 | 9,506 |
| Net change in short-term borrowings from the FHLB and other debt | (12,675) | 13,325 |
| Proceeds from FHLB advances and other debt | 11,000 | 3,200 |
| Repayments on FHLB advances and other debt | (1,000) | (1,000) |
| Net change in advances by borrowers for taxes and insurance | (60) | (37) |
| Cash dividends paid | (445) | (819) |
| Repurchase of common stock | (1,293) | (830) |
| Net cash from financing activities | 91 | 23,345 |
| Net change in cash and cash equivalents | (287) | (2,033) |
| Beginning cash and cash equivalents | 3,894 | 5,403 |
| Ending cash and cash equivalents | \$ 3,607 | 3,370 |
| Supplemental cash flow information: | | |
| Interest paid | \$ 4,181 | \$ 4,352 |
| Income taxes paid | 30 | 15 |

Supplemental noncash disclosures:

| | | | | |
|--|----|-----|----|-----|
| Transfers from loans to repossessed assets | \$ | 123 | \$ | 262 |
| See accompanying notes to consolidated financial statements. | | | | 7. |

Table of Contents

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 consolidated financial statements include Central Federal Corporation and its wholly owned subsidiaries, CFBank and Ghent Road, Inc., together referred to as the Company. The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) and in compliance with U.S. generally accepted accounting principles. Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accounting principles have been condensed or omitted.

In the opinion of the management of the Company, the accompanying consolidated financial statements as of June 30, 2008 and December 31, 2007 and for the three and six months ended June 30, 2008 and 2007 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 each of the three and six months ended June 30, 2008 is 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-K for the period ended December 31, 2007. 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 2007 Annual Report that was filed as Exhibit 13.1 to the Form 10-K. The Company has consistently followed those policies in preparing this Form 10-Q.

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.

The factors used in the earnings per share computation follow.

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-----------|---------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Basic | | | | |
| Net income | \$ 224 | \$ 84 | \$ 348 | \$ 169 |
| Weighted average common shares outstanding | 4,298,000 | 4,501,889 | 4,340,730 | 4,517,158 |
| Basic earnings per common share | \$ 0.05 | \$ 0.02 | \$ 0.08 | \$ 0.04 |
| Diluted | | | | |
| Net income | \$ 224 | \$ 84 | \$ 348 | \$ 169 |
| Weighted average common shares outstanding for basic earnings per share | 4,298,000 | 4,501,889 | 4,340,730 | 4,517,158 |
| | 4,154 | | 2,290 | 21 |

Add: Dilutive effects of assumed exercises of
 stock options and stock based incentive plan
 shares

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Average shares and dilutive potential common shares | 4,302,154 | 4,501,889 | 4,343,020 | 4,517,179 |
| Diluted earnings per common share | \$ 0.05 | \$ 0.02 | \$ 0.08 | \$ 0.04 |

8.

Table of Contents

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following potential average common shares were anti-dilutive and not considered in computing diluted loss per share because 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, | | Six months ended June 30, | |
|-----------------------------------|-----------------------------|---------|---------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Stock options | 296,400 | 294,622 | 295,511 | 287,505 |
| Stock based incentive plan shares | 34,860 | 20,663 | 27,035 | 20,163 |

Operating Segments:

Prior to 2008, internal financial information was primarily reported and aggregated in two lines of business, banking and mortgage banking. Beginning in 2008, mortgage banking activities are considered to be part of banking activities due to mortgage banking activities insignificant contribution to the Company's overall performance. While the chief decision-makers monitor the revenue streams of the Company's various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Adoption of New Accounting Standards:**Fair Value Option and Fair Value Measurements**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value, expands disclosures about fair value measurements, establishes a fair value hierarchy about the assumptions used to measure fair value, and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The impact on the Company of its adoption of FAS 157 was not material and is described below.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or liabilities as of January 1, 2008.

9.

Table of Contents

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement

FAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy established by FAS 157 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) on identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value.

Securities: The fair value of securities available for sale is determined using pricing models that vary based on asset class and include available trade, bid, and other market information. Fair value of securities available for sale may also be determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

Loans held for sale: The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan.

Derivatives: Our derivative instruments consist of interest-rate swaps. As such, significant fair value inputs can generally be verified and do not typically involve significant judgments by management.

Servicing rights: The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness.

10.

Table of Contents

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets measured at fair value on a recurring basis are summarized below.

| | | Fair Value Measurements at June 30, 2008 Using | | |
|-------------------------------|-----------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available for sale securities | \$ 26,182 | \$ | \$ 26,182 | \$ |

Assets measured at fair value on a nonrecurring basis are summarized below.

| | | Fair Value Measurements at June 30, 2008 Using | | |
|-----------------------|--------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Loan servicing rights | \$ 134 | \$ | \$ 134 | \$ |

There were no impairment charges recognized during the period, however there was a \$4 valuation allowance on loan servicing rights at June 30, 2008.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability is based on either the post-employment benefit cost for the continuing life insurance or the future death benefit depending on the contractual terms of the underlying agreement. This issue was effective for the Company on January 1, 2008. The impact on the Company of its adoption of this issue was not material.

On November 5, 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (SAB 109). Previously, SAB No. 105, *Application of Accounting Principles*

to Loan Commitments (SAB 105), stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The impact on the Company of its adoption of SAB 109 was not material.

11.

Table of Contents

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In December 2007, the SEC issued SAB No. 110 (SAB 110), which expresses the views of the SEC regarding the use of a simplified method, as discussed in SAB No. 107, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123(R), *Share-Based Payment*. The SEC concluded that a company could, under certain circumstances, continue to use the simplified method for share option grants after December 31, 2007. The Company does not use the simplified method for share options and therefore SAB 110 has no material impact on the Company's consolidated financial statements.

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In December 2007, the FASB issued SFAS No. 141(R) (revised version of SFAS No. 141), *Business Combinations* (FAS 141(R)). FAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their fair values as of the acquisition date. FAS 141(R) replaces SFAS No. 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. FAS 141(R) applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 31, 2008. There will be no impact on the Company's consolidated financial statements upon adoption.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (FAS 160). FAS 160 amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. FAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. This statement is effective for fiscal years beginning on or after December 15, 2008. At the present time, the Company does not expect that adoption of this statement will have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (FAS 161). FAS 161 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133) and is intended to enhance the current disclosure framework in FAS 133. FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. At the present time, the Company does not expect that adoption of FAS 161 will have a material impact on the Company's consolidated financial statements.

12.

Table of Contents

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

NOTE 2 LOANS

Loans were as follows:

| | June 30, 2008 | December 31, 2007 |
|------------------------------|------------------|-------------------------|
| Commercial | \$ 38,186 | \$ 35,334 |
| Real estate: | | |
| Single-family residential | 30,854 | 31,082 |
| Multi-family residential | 42,608 | 43,789 |
| Commercial | 96,229 | 95,088 |
| Consumer | 26,314 | 28,248 |
| Subtotal | 234,191 | 233,541 |
| Less: Net deferred loan fees | (421) | (382) |
| Allowance for loan losses | (2,947) | (2,684) |
| Loans, net | \$ 230,823 | \$ 230,475 |

Real estate loans include \$1,805 and \$6,184 in construction loans at June 30, 2008 and December 31, 2007. Activity in the allowance for loan losses was as follows.

| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------|--------------------------------|----------|------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Beginning balance | \$ 2,729 | \$ 2,150 | \$ 2,684 | \$ 2,109 |
| Provision for loan losses | 260 | 107 | 484 | 142 |
| Loans charged-off | (46) | (1) | (226) | (9) |
| Recoveries | 4 | 16 | 5 | 30 |
| Ending balance | \$ 2,947 | \$ 2,272 | \$ 2,947 | \$ 2,272 |

Individually impaired loans were as follows.

| | June 30, 2008 | December 31, 2007 |
|--|------------------|-------------------------|
| Period-end loans with no allocated allowance for loan losses | \$ 1,910 | \$ |
| Period-end loans with allocated allowance for loan losses | | |
| Total | \$ 1,910 | \$ |

Table of Contents

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

NOTE 2 LOANS (continued)

| | Three months ended | | Six months ended | |
|--|--------------------|------|------------------|------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Average of individually impaired loans during the period | \$ 1,694 | \$ | \$ 1,269 | \$ |
| Interest income recognized during impairment | | | | |
| Cash-basis interest income recognized | | | | |
| Nonperforming loans were as follows: | | | | |

| | December | |
|--|----------|-------|
| | June 30, | 31, |
| | 2008 | 2007 |
| Loans past due over 90 days still on accrual | \$ | \$ 97 |
| Nonaccrual loans | 1,972 | 391 |

Nonperforming loans include both smaller balance single-family mortgage and consumer loans that are collectively evaluated for impairment and individually classified impaired loans.

NOTE 3 STOCK COMPENSATION PLANS

The Company has two share based compensation plans as described below. Total compensation cost that has been charged against income for those plans was \$40 and \$73, respectively, for the three and six months ended June 30, 2008 and \$44 and \$89, respectively, for the three and six months ended June 30, 2007. The total income tax benefit was \$14 and \$25, respectively, for the three and six months ended June 30, 2008 and \$15 and \$30, respectively, for the three and six months ended June 30, 2007.

The Company's stock-based incentive plans (the Plans), which are shareholder-approved, provide for stock option grants and restricted stock awards to directors, officers and employees. The 1999 Stock-based Incentive Plan provided 193,887 shares for stock option grants and 77,554 shares for restricted stock awards. The 2003 Equity Compensation Plan, as amended and restated, provided an aggregate of 500,000 shares for stock option grants and restricted stock awards, of which up to 150,000 shares can be awarded in the form of restricted stock awards.

Stock Options

The Plans permit the Company to grant stock options to its directors, officers and employees for up to 693,887 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are granted with an exercise price equal to the market price of the Company's common stock at the date of grant. The option awards generally have full vesting periods ranging from two to five years and are exercisable for a period of 10 years from the date of grant.

14.

Table of Contents

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

NOTE 3 STOCK COMPENSATION PLANS (continued)

The fair value of each option award is estimated on the date of grant using a closed form option valuation model (Black-Scholes) that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. Employee and management stock options are tracked separately. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of the options granted during the three- and six-month periods ended June 30, 2008 and 2007 was determined using the following weighted-average assumptions as of the grant dates.

| | Three months ended | | Six months ended | |
|---------------------------------|--------------------|------|------------------|-------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Risk-free interest rate | 3.10% | | 2.46% | 4.68% |
| Expected term (years) | 6 | | 6 | 6 |
| Expected stock price volatility | 22% | | 23% | 23% |
| Dividend yield | 4.30% | | 4.87% | 4.90% |

The following table summarizes the stock option activity in the Plans for the six months ended June 30, 2008:

| | Six months ended June 30, 2008 | | | |
|--|--------------------------------|--|--|--------------------|
| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Intrinsic Value |
| Options outstanding, beginning of period | 299,622 | \$ 10.94 | 6.0 | \$ |
| Granted | 43,975 | 4.11 | | |
| Exercised | | | | |
| Forfeited or expired | (6,167) | 9.57 | 9.6 | |
| Options outstanding, end of period | 337,430 | \$ 10.16 | 6.0 | \$ |
| Options exercisable, end of period | 280,388 | \$ 11.13 | 5.0 | \$ |

Table of Contents

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

NOTE 3 STOCK COMPENSATION PLANS (continued)

The following table presents information related to the stock option Plans with respect to the three- and six-month periods ended June 30, 2008 and 2007.

| | Three months ended June | | Six months ended June 30, | |
|--|-------------------------|------|---------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Intrinsic value of options exercised | \$ | \$ | \$ | \$ |
| Cash received from option exercises | | | | |
| Related tax benefit realized from option exercises | | | | |
| Weighted average fair value of options granted | \$ 0.66 | | \$0.51 | \$ 1.19 |

As of June 30, 2008, there was \$25 of total unrecognized compensation cost related to nonvested stock options granted under the Plans. The cost is expected to be recognized over a weighted-average period of 1.6 years.

Restricted Stock Awards

The Plans permit the Company to award restricted stock to directors, officers and employees. Compensation expense related to restricted stock awards is recognized over the vesting period of the shares based on the market value of the shares at issue date. Shares of restricted stock issuable under the Plans totaled 27,917 at June 30, 2008. During the six months ended June 30, 2008 and June 30, 2007, 32,875 and 18,250 shares of restricted stock were issued, respectively.

The following table summarizes changes in the Company's nonvested shares for the six-month period ended June 30, 2008.

| | Six months ended June 30, 2008 | |
|---|--------------------------------|--|
| | Shares | Weighted Average Grant-Date Fair Value |
| Nonvested shares outstanding at beginning of period | 32,525 | \$ 8.79 |
| Granted | 32,875 | 4.03 |
| Vested | (14,692) | 8.86 |
| Forfeited | | |
| Nonvested shares outstanding at end of period | 50,708 | \$ 5.68 |

As of June 30, 2008, there was \$161 of total unrecognized compensation cost related to nonvested shares granted under the Plans. The cost is expected to be recognized over a weighted-average period of 1.5 years. The total fair value of shares vested during the three and six months ended June 30, 2008 was \$19 and \$66, respectively. The total fair value of shares vested during the three and six months ended June 30, 2007 was \$53 and \$107, respectively.

Table of Contents

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

NOTE 4 FEDERAL HOME LOAN BANK ADVANCES

The following table sets forth advances from the Federal Home Loan Bank (FHLB) at June 30, 2008 and December 31, 2007.

| | June 30, 2008 | December 31, 2007 |
|--|------------------|----------------------|
| Maturity July 2008 at 2.10% floating rate | \$ 25,575 | \$ |
| Maturity January 2008 at 4.00% floating rate | | 38,250 |
| Maturities September 2008 thru April 2011, fixed at rates from 2.48% to 5.60%, averaging 3.96% at June 30, 2008, and maturities March 2008 thru March 2010, fixed at rates from 2.90% to 5.60%, averaging 4.89% at December 31, 2007 | 21,200 | 11,200 |
| Total | \$ 46,775 | \$ 49,450 |

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances.

The following table sets forth the collateralization of advances from the FHLB at June 30, 2008 and December 31, 2007.

| | June 30, 2008 | December 31, 2007 |
|---|-------------------|----------------------|
| First mortgage loans under a blanket lien arrangement | \$ 28,026 | \$ 26,649 |
| Second mortgage loans | 509 | 577 |
| Multi-family mortgage loans | 20,593 | 15,227 |
| Home equity lines of credit | 9,958 | 9,918 |
| Commercial real estate loans | 62,018 | 62,287 |
| Securities | 14,143 | 15,401 |
| Total | \$ 135,247 | \$ 130,059 |

Based on this collateral and CFBank's holdings of FHLB stock, CFBank is eligible (as of June 30, 2008) to borrow \$64,342 in total from the FHLB.

Payment information

Required payments over the next five years are:

| | |
|---------------|------------------|
| June 30, 2009 | \$ 33,775 |
| June 30, 2010 | 10,000 |
| June 30, 2011 | 3,000 |
| Total | \$ 46,775 |

Table of Contents

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

Certain statements contained in this Form 10-Q which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as believes, anticipates, expects, intends, targeted and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying those statements. Forward-looking statements involve risks and uncertainties. Actual results may differ materially from those predicted by the forward-looking statements because of various factors and possible events, including: (i) changes in political, economic or other factors such as inflation rates, recessionary or expansive trends, and taxes; (ii) competitive pressures; (iii) fluctuations in interest rates; (iv) the level of defaults and prepayments on loans made by CFBank; (v) unanticipated litigation, claims or assessments; (vi) fluctuations in the cost of obtaining funds to make loans; and (vii) regulatory changes. Further information on these risk factors is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Forward-looking statements speak only as of the date on which they are made and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made to reflect unanticipated developments, events or circumstances.

Business Overview

Central Federal Corporation is a unitary savings and loan holding company incorporated in Delaware in 1998. Our primary business is the operation of our principal subsidiary, CFBank, a federally chartered savings association formed in Ohio in 1892.

CFBank is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. Our client-centric method of operation emphasizes personalized service, clients' access to decision makers, solution-driven lending and quick execution, efficient use of technology and the convenience of remote deposit, telephone banking, corporate cash management and online internet banking. We attract deposits from the general public and use the 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.

General

Our net income is dependent primarily on net interest income, which is the difference between the interest income earned on loans and securities and the cost of funds, consisting of interest paid on deposits and borrowed funds. Net interest income is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. 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. Operating expenses principally consist of employee compensation and benefits, occupancy, and other general and administrative expenses. In general, 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 our performance. Other than as discussed above, we are not aware of any market or institutional trends, other events, or uncertainties that are expected to have a material effect on liquidity, capital resources or operations. We are not aware of any current recommendations by regulators which would have a material effect if implemented.

Table of Contents

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

Financial Condition

General. Assets totaled \$278.6 million at June 30, 2008, and decreased \$960,000, or 0.3%, from \$279.6 million at December 31, 2007. The decline was primarily due to a decrease in the balance of securities available for sale resulting from sales, maturities and repayments.

Securities. Securities available for sale totaled \$26.2 million at June 30, 2008, a decrease of \$2.2 million, or 7.8%, compared to \$28.4 million at December 31, 2007 due to current period security sales, maturities and repayments on mortgage-backed securities, partially offset by purchases.

Loans. Net loans totaled \$230.8 million at June 30, 2008 and increased \$348,000, or 0.2%, from \$230.5 million at December 31, 2007. A 1.6% increase in commercial, commercial real estate and multi-family loans was largely offset by a 6.8% decrease in consumer loan balances, which related primarily to repayments on auto loans.

Deposits. Deposits totaled \$198.9 million at June 30, 2008 and increased \$4.6 million, or 2.4%, from \$194.3 million at December 31, 2007. Certificate of deposit accounts increased \$2.6 million, money market account balances increased \$1.2 million, traditional savings account balances increased \$728,000, noninterest bearing checking account balances increased \$1.3 million and interest bearing checking account balances decreased \$1.2 during the six months ended June 30, 2008. During the six months ended June 30, 2008, CFBank exercised its call option on \$9.6 million in callable brokered deposit accounts, which had an average cost of 5.51%. The deposits were replaced at lower current market funding rates at an annual pre-tax cost savings of approximately \$165,000.

Federal Home Loan Bank advances. FHLB advances totaled \$46.8 million at June 30, 2008 and decreased \$2.7 million, or 5.4%, compared to \$49.5 million at December 31, 2007. FHLB advances were repaid with funds from the increase in deposits.

Shareholders' equity. Shareholders' equity totaled \$26.0 million at June 30, 2008 and decreased \$1.4 million, or 5.2%, compared to \$27.4 million at December 31, 2007. The decrease in equity was due to the repurchase of 275,000 shares of the Company's common stock totaling \$1.3 million and dividends to shareholders, offset by net income.

Comparison of the Results of Operations for the Three Months Ended June 30, 2008 and 2007

General. Net income for the quarter ended June 30, 2008 increased \$140,000, or 166.7%, and totaled \$224,000, or \$.05 per diluted share, compared to net income of \$84,000, or \$.02 per diluted share, for the quarter ended June 30, 2007.

Net interest income. Net interest income increased \$374,000, or 20.3%, to \$2.2 million for the quarter ended June 30, 2008 compared to \$1.8 million for the quarter ended June 30, 2007. The increase was primarily due to a decline in the average cost of interest-bearing liabilities from 4.48% in the second quarter of 2007 to 3.20% in the second quarter of 2008, which resulted in a 20.5% decrease in interest expense. The decrease in interest expense was partially offset by a 2.6% decrease in interest income due to a decline in the average yield on interest-earning assets from 7.11% in the second quarter of 2007 to 6.33% in the second quarter of 2008. The reductions in the Federal Funds rate, the prime rate and other market interest rates, beginning in September 2007, resulted in larger decreases in funding costs than in asset yields. Because the decline in funding costs was greater than the decline in asset yields, the result was an increase in net interest margin to 3.43% during the quarter ended June 30, 2008, compared to 3.12% during the quarter ended June 30, 2007. Management of the net interest margin in the current economic and competitive environment will be a challenge, and downward pressure on margins is possible. CFBank continues to manage the net interest margin by matching asset and liability pricing closely to its business model.

Interest income. Interest income decreased \$110,000, or 2.6%, to \$4.1 million in the second quarter of 2008, compared to \$4.2 million in the second quarter of 2007. The decrease in interest income was primarily due to a decrease in income on loans and securities. Interest income on loans declined \$44,000, or 1.2%, to \$3,732,000 for

Table of Contents

CENTRAL FEDERAL CORPORATION

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

the quarter ended June 30, 2008, from \$3,776,000 in the second quarter of 2007. The decrease in income on loans was due to a decline in the average yield on loans, partially offset by an increase in the average balance of loans. The average yield on loans decreased 96 basis points (bp) to 6.48% in the second quarter of 2008, from 7.44% in the second quarter of 2007. The decline in yield on loans was due to origination of new loans at lower market interest rates and lower reset rates on existing adjustable rate loans. The average balance of loans outstanding increased \$27.4 million, or 13.5%, to \$230.4 million in the second quarter of 2008, from \$203.0 million in the second quarter of 2007. Interest income on securities decreased \$62,000, or 15.5%, to \$338,000 for the quarter ended June 30, 2008, from \$400,000 in the second quarter of 2007. The decrease in income on securities was due to a decline in the average balance of securities, partially offset by an increase in the average yield. The average balance of securities decreased \$5.1 million, or 16.4%, to \$26.3 million in the second quarter of 2008, from \$31.5 million in the second quarter of 2007. The decrease in the average balance of securities was due to current period security sales, maturities and repayments on mortgage-backed securities in excess of purchases. The average yield on securities increased 14 bp to 5.20% in the second quarter of 2008, from 5.06% in the second quarter of 2007.

Interest expense. Interest expense decreased \$484,000, or 20.5%, to \$1.9 million for the second quarter of 2008, compared to \$2.4 million in the second quarter of 2007. The decrease resulted from both reduced pricing on deposit accounts and lower borrowing costs. Interest expense on deposits decreased \$268,000, or 15.6%, to \$1.5 million in the second quarter of 2008, from \$1.7 million in the second quarter of 2007. The decrease in expense on deposits was due to a decline in the average cost of deposits, partially offset by an increase in average deposit balances. The average cost of deposits decreased 115 bp to 3.16% in the second quarter of 2008, from 4.31% in the second quarter of 2007, due to lower market interest rates in the current year quarter. Average deposit balances increased \$23.8 million, or 14.9%, to \$183.3 million in the second quarter of 2008, from \$159.5 million in the second quarter of 2007. The increase in average deposit balances was predominantly due to growth in certificate of deposit, money market and checking account balances. Interest expense on FHLB advances and other debt, including subordinated debentures, decreased \$216,000 to \$431,000 in the second quarter of 2008, from \$647,000 in the second quarter of 2007. This decrease in expense was due to a decrease in the average cost of borrowings, which declined 165 bp to 3.35% in the second quarter of 2008, from 5.00% in the second quarter of 2007. The decrease in borrowing cost was the result of lower market interest rates in the current year quarter.

Provision for loan losses. Provisions for loan losses are provided in relation to loan growth, portfolio composition, current economic conditions and trends, and ascertainable credit risk information available. The provision totaled \$260,000 in the quarter ended June 30, 2008 compared to \$107,000 in the quarter ended June 30, 2007. The increase in the provision was due to an increase in nonperforming loans and loan charge-offs. Nonperforming loans increased \$1.5 million and totaled \$2.0 million, or 0.84% of total loans, at June 30, 2008, compared to \$488,000, or 0.21% of total loans, at December 31, 2007. The increase in nonperforming loans was due to one unsecured commercial loan, totaling \$645,000, and three multi-family loans to one borrower, totaling \$1.3 million and secured by apartment buildings in the Columbus, Ohio area, which were past due and on nonaccrual status at June 30, 2008. For the quarter ended June 30, 2008, CFBank had net charge-offs of \$41,000, or 0.07% on an annualized basis of average loans, that were principally related single-family mortgage loans on properties located in our market area. The ratio of the allowance for loan losses to total loans was 1.26% at June 30, 2008 compared to 1.15% at December 31, 2007. The Company believes that the allowance for loan losses is adequate to absorb probable incurred credit losses in the loan portfolio at June 30, 2008; however, future additions to the allowance may be necessary based on factors such as changes in client business performance, economic conditions, and changes in real estate values. Management continues to diligently monitor credit quality in the existing portfolio and analyzes potential loan opportunities carefully in order to manage credit risk.

Noninterest income. Noninterest income increased \$7,000, or 3.3%, and totaled \$217,000 for the quarter ended June 30, 2008, compared to \$210,000 for the quarter ended June 30, 2007. Noninterest income for the quarter ended June 30, 2008 included \$21,000 net gains on the sales of securities and \$19,000 increased service charges on deposit

accounts, primarily increased nonsufficient funds (NSF) fees, offset by \$36,000 lower net gains on sales

20.

Table of Contents

CENTRAL FEDERAL CORPORATION

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of loans due to lower mortgage loan originations and sales in the current year quarter. The decline in mortgage loan activity experienced by CFBank was a result of the current nationwide slowdown in the mortgage market.

Noninterest expense. Noninterest expense for the quarter ended June 30, 2008 totaled \$1,866,000 and was comparable to noninterest expense of \$1,831,000 in the prior year quarter. The ratio of noninterest expense to average assets improved to 2.70% in the second quarter of 2008 compared to 2.90% in the prior year quarter. The efficiency ratio improved to 77.27% in the quarter ended June 30, 2008 from 89.13% in the prior year quarter. The improvement in the ratio of noninterest expense to average assets during the current quarter was due to cost control combined with asset growth. Noninterest expense increased only \$35,000, or 1.9%, for the quarter ended June 30, 2008 compared to the prior year quarter, while assets increased \$18.7 million, or 7.2%, during the 12-month period ended June 30, 2008. Cost control positively impacted the efficiency ratio, which also improved as a result of growth in net interest income.

Income taxes. Income taxes totaled \$86,000 for the quarter ended June 30, 2008 compared to \$33,000 for the quarter ended June 30, 2007, due to higher pretax income in the second quarter of 2008.

Comparison of the Results of Operations for the Six Months Ended June 30, 2008 and 2007

General. Net income for the six months ended June 30, 2008 increased \$179,000, or 105.9%, and totaled \$348,000, or \$.08 per diluted share, compared to net income of \$169,000, or \$.04 per diluted share, for the six months ended June 30, 2007.

Net interest income. Net interest income increased \$616,000, or 16.9%, to \$4.3 million for the six months ended June 30, 2008, compared to \$3.6 million for the six months ended June 30, 2007. The increase was primarily due to a decline in the average cost of interest-bearing liabilities from 4.43% for the six months ended June 30, 2007 to 3.58% for the six months ended June 30, 2008, which resulted in a 7.2% decrease in interest expense. Interest income increased 3.6% due to a \$29.3 million increase in average interest-earning assets for the six months ended June 30, 2008 compared to the six months ended June 30, 2007. The increase in interest income caused by the increase in average interest-earning assets was partially offset by a decline in the average yield on interest-earning assets, from 7.12% for the six months ended June 30, 2007 to 6.55% for the six months ended June 30, 2008. As discussed previously, the reductions in the Federal Funds rate, the prime rate and other market interest rates, beginning in September 2007, also resulted in larger decreases in funding costs than in asset yields during the six months ended June 30, 2008. Due to the larger decline in funding costs, the result was an increase in the net interest margin to 3.30% during the six months ended June 30, 2008, compared to 3.18% during the six months ended June 30, 2007.

Interest income. Interest income increased \$291,000, or 3.6%, to \$8.5 million for the six months ended June 30, 2008, compared to \$8.2 million for the six months ended June 30, 2007. The increase in interest income was primarily due to an increase in income on loans partially offset by a decline in income on securities. Interest income on loans increased \$395,000, or 5.4%, to \$7.7 million for the six months ended June 30, 2008, from \$7.3 million in the six months ended June 30, 2007. The increase in income was due to an increase in the average balance of loans outstanding offset by a decline in yield on the portfolio. The average balance of loans outstanding increased \$33.3 million, or 16.8%, to \$229.2 million for the six months ended June 30, 2008, compared to \$196.2 million for the six months ended June 30, 2007. The average yield on loans decreased 73 bp to 6.73% in the six months ended June 30, 2008, from 7.46% in the six months ended June 30, 2007. The decline in yield was due to origination of new loans at lower market interest rates and lower reset rates on existing adjustable rate loans. Interest income on securities decreased \$83,000, or 10.7%, to \$693,000 for the six months ended June 30, 2008, from \$776,000 for the six months ended June 30, 2007. The decrease in income was due to a decline in the average balance of securities, partially offset by an increase in the average yield on the portfolio. The average balance of securities decreased \$3.5 million, or 11.5%, to \$27.2 million for the six months ended June 30, 2008, from \$30.7 million for the six months ended June 30, 2007. The decrease was due to current period security sales, maturities and repayments on mortgage-backed securities in excess of purchases. The average yield on securities increased 16 bp to 5.20% for the six months ended June 30, 2008, from 5.04% for the six months ended June 30, 2007.

21.

Table of Contents

CENTRAL FEDERAL CORPORATION

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interest expense. Interest expense decreased \$325,000, or 7.2%, to \$4.2 million for the six months ended June 30, 2008, compared to \$4.5 million for the six months ended June 30, 2007. The decrease resulted from both reduced pricing on deposit accounts and lower borrowing costs. Interest expense on deposits decreased \$162,000, or 4.8%, to \$3.2 million for the six months ended June 30, 2008, from \$3.4 million for the six months ended June 30, 2007. The decrease in expense on deposits was due to a decline in the average cost of deposits, partially offset by an increase in average deposit balances. The average cost of deposits decreased 73 bp to 3.57% in the six months ended June 30, 2008, from 4.30% in the six months ended June 30, 2007, due to lower market interest rates in the current year period. Average deposit balances increased \$23.3 million, or 14.8%, to \$180.8 million for the six months ended June 30, 2008, from \$157.5 million for the six months ended June 30, 2007. The increase in average deposit balances was due to growth in certificate of deposit, money market and checking account balances. Interest expense on FHLB advances and other debt, including subordinated debentures, decreased \$163,000 to \$971,000 for the six months ended June 30, 2008, from \$1.1 million for the six months ended June 30, 2007. The decrease in this expense was due to decrease in the average cost of borrowings partially offset by an increase in the average balance of FHLB advances. The average cost of borrowings, including subordinated debentures, declined 123 bp to 3.63% in the six months ended June 30, 2008, from 4.86% in the six months ended June 30, 2007. The decrease in cost of borrowings was the result of lower market interest rates in the current year period. The average balance of FHLB advances increased \$6.8 million, or 16.4%, to \$48.3 million for the six months ended June 30, 2008, from \$41.5 million for the six months ended June 30, 2007. Proceeds from the advances were used to fund loan growth.

Provision for loan losses. The provision for loan losses totaled \$484,000 for the six months ended June 30, 2008 compared to \$142,000 for the six months ended June 30, 2007. The \$342,000 increase in the provision in the current year period was due to an increase in nonperforming loans and loan charge-offs, discussed at Comparison of the Results of Operations for the Three Months ended June 30, 2008 and 2007. *Provision for loan losses.* For the six months ended June 30, 2008, CFBank had net charge-offs of \$220,000, or 0.19% on an annualized basis of average loans, that were principally related to one home equity line of credit and, to a lesser extent, single-family mortgage loans.

Noninterest income. Noninterest income totaled \$408,000 for the six months ended June 30, 2008, compared to \$410,000 for six months ended June 30, 2007. Noninterest income for the six months ended June 30, 2008 included \$44,000 net gains on the sales of securities and a \$44,000 increase in service charges on deposit accounts, primarily NSF and other checking account fees, offset by \$75,000 lower net gains on sales of loans due to lower mortgage loan originations and sales in the current year period.

Noninterest expense. Noninterest expense for the six months ended June 30, 2008 totaled \$3,712,000 and was comparable to noninterest expense of \$3,683,000 in the prior year period. The ratio of noninterest expense to average assets improved to 2.69% in the six months ended June 30, 2008 compared to 3.00% in the prior year period. The efficiency ratio improved to 80.22% during the six months ended June 30, 2008 from 90.78% during the prior year period. The improvement in the ratio of noninterest expense to average assets during the six months ended June 30, 2008 was due to cost control combined with asset growth. Noninterest expense increased only \$29,000, or 0.8%, for the six months ended June 30, 2008, compared to the six months ended June 30, 2007, while assets increased \$18.7 million, or 7.2%, during the 12-month period ended June 30, 2008. Cost control positively impacted the efficiency ratio, which also improved as a result of growth in net interest income.

Income taxes. Income taxes totaled \$127,000 for the six months ended June 30, 2008 compared to \$63,000 for the six months ended June 30, 2007, due to higher pretax income in the current year period.

22.

Table of Contents

CENTRAL FEDERAL CORPORATION

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Critical Accounting Policies

We follow financial accounting and reporting policies that are in accordance with U.S. generally accepted accounting principles and conform to general practices within the banking industry. These policies are presented in Note 1 to our audited consolidated financial statements in our 2007 Annual Report to Shareholders incorporated by reference into our 2007 Annual Report on Form 10-K. 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 our financial position or results of operations. We believe that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements are appropriate given the factual circumstances at the time.

We have identified accounting policies that are critical accounting policies, and an understanding of these is necessary to understand our financial statements. One critical accounting policy relates to determining the adequacy of the allowance for loan losses. The 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 required allowance balance 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 previous sections captioned *Provision for Loan Losses* and in the notes to the consolidated financial statements in our 2007 Annual Report to Shareholders incorporated by reference into our 2007 Annual Report on Form 10-K, Note 1 (Summary of Significant Accounting Policies) and Note 3 (Loans).

Another critical accounting policy relates to valuation of the deferred tax asset for net operating losses. Net operating losses totaling \$700,000, \$2.7 million and \$437,000 expire in 2023, 2024 and 2025, 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 we continue our strategy to expand into business financial services and focus on growth, the resultant increase in interest-earning assets is expected to increase profitability. Additional information is included in Notes 1 and 13 to our audited consolidated financial statements in our 2007 Annual Report to Shareholders incorporated by reference into our 2007 Annual Report on Form 10-K.

Liquidity and Capital Resources

In general terms, liquidity is a measurement of ability to meet cash needs. The primary objective in liquidity management is to maintain the ability to meet loan commitments and to repay deposits and other liabilities in accordance with their terms without an adverse impact on current or future earnings. Principal sources of funds are deposits, amortization and prepayments of loans, maturities, sales and principal receipts of securities available for sale, 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.

CFBank is required by regulation to maintain sufficient liquidity to ensure its safe and sound operation. Thus, adequate liquidity may vary depending on CFBank's overall asset/liability structure, market conditions, the activities of competitors and the requirements of its own deposit and loan customers. Management believes that CFBank's liquidity is sufficient.

Liquidity management is both a daily and long-term responsibility of management. We adjust our 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, deposit flows, yields available on interest-earning deposits and securities and the objective of our asset/liability management program. In addition to liquid assets, we have other sources of liquidity available including, but not limited to, access to advances from the FHLB, lines of

Table of Contents

CENTRAL FEDERAL CORPORATION

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

credit with commercial banks, use of brokered deposits and the ability to obtain deposits by offering above-market interest rates.

CFBank relies primarily on competitive rates, customer service and relationships with customers to retain deposits. Based on our historical experience with deposit retention and current retention strategies, we believe that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of deposits will remain with CFBank.

At June 30, 2008, CFBank exceeded all of its regulatory capital requirements to be considered well-capitalized with a Tier 1 capital level of \$24.1 million, or 8.7% of adjusted total assets, which exceeds the required level of \$13.8 million, or 5.0%; Tier 1 risk-based capital level of \$24.1 million, or 10.1% of risk-weighted assets, which exceeds the required level of \$14.3 million, or 6.0%; and total risk-based capital of \$27.0 million, or 11.3% of risk-weighted assets, which exceeds the required level of \$23.8 million, or 10.0%.

24.

Table of Contents

CENTRAL FEDERAL CORPORATION
Item 4T.
CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our 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 our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Management, with the participation of our principal executive and financial officers, 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 Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act.

Changes in internal control over financial reporting. We made no changes in our internal controls or in other factors that could significantly affect these controls in the second quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

25.

Table of ContentsCENTRAL FEDERAL CORPORATION
PART II. Other Information**Item 1. Legal Proceedings**

Information required by Item 103 of Regulation S-K is incorporated by reference to our 2007 Annual Report on Form 10-K filed with the SEC on March 27, 2008 under the caption Item 3. Legal Proceedings. During the quarter ended June 30, 2008, CFBank and Kaleidico LLC resolved their dispute relating to the residential mortgage lead generation and management system. CFBank has been granted a perpetual license to the system and all upgrades.

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

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|------------------|---|---|--|--|
| April 1 30, 2008 | 275,000 ⁽¹⁾ | \$ 4.70 | 275,000 | 125,000 ⁽²⁾ |
| May 1 31, 2008 | | | | |
| June 1 30, 2008 | | | | |

⁽¹⁾ These shares were purchased in a privately negotiated transaction.

⁽²⁾ A 400,000 share repurchase program was announced on June 26, 2007 and expires July 30, 2008.

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

The Company held its Annual Meeting on May 15, 2008. The term of two of the Company's seven directors expired at the meetings. Each director was re-elected by the stockholders for a three-year term expiring at the annual meeting in 2011. Results of the voting were as follows:

Election of Directors:

| Nominee | For | Votes Withheld |
|--------------------|-----------|-------------------|
| William R. Downing | 3,728,991 | 181,724 |
| Gerry W. Grace | 3,718,158 | 192,557 |

In addition to the foregoing, the following directors continued in office after the meeting, each until the annual meeting in the year indicated:

| Continuing Director | Year |
|---------------------|------|
| Jeffrey W. Aldrich | 2009 |
| Mark S. Allio | 2009 |
| Thomas P. Ash | 2010 |
| David C. Vernon | 2010 |
| Jerry F. Whitmer | 2010 |

26.

Table of ContentsCENTRAL FEDERAL CORPORATION
PART II. Other Information**Item 4. Submission of Matters to a Vote of Security Holders (continued)**

Ratification of the appointment of Crowe Chizek and Company LLC as independent registered public accounting firm for the Company for the year ending December 31, 2008:

| | |
|---------|-----------|
| For | 3,744,868 |
| Against | 145,251 |
| Abstain | 20,596 |

There were no broker non-votes with respect to either of the foregoing matters.

Item 6. Exhibits

(a) Exhibit

| Number | Exhibit |
|--------|--|
| 3.1* | Certificate of Incorporation |
| 3.2** | Amendment to Certificate of Incorporation of the registrant |
| 3.2*** | Second Amended and Restated Bylaws of the registrant |
| 4.0* | Form of Common Stock Certificate |
| 11.1 | Statement Re: Computation of Per Share Earnings |
| 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 to the Exhibits included with the registrant's Registration Statement on Form SB-2 No. 333-64089, filed with the Commission on September 23, 1998

** Incorporated by reference to the Exhibits included with the registrant's

Registration
Statement on
Form S-2
No. 333-129315
filed with the
Commission on
October 28,
2005

*** Incorporated by
reference to
Exhibit 3.3 to
the registrant's
Form 10-K for
the fiscal year
ended
December 31,
2007

27.

Table of Contents

CENTRAL FEDERAL CORPORATION
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL FEDERAL CORPORATION

Dated: August 13, 2008

By: /s/ Mark S. Allio
Mark S. Allio
Chairman of the Board, President and
Chief Executive Officer

Dated: August 13, 2008

By: /s/ Therese Ann Liutkus
Therese Ann Liutkus, CPA
Treasurer and Chief Financial Officer

28.