CENTRAL FEDERAL CORP
Form 10-Q
May 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2012

or

¨ **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) (Zip Code)

(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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.

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

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

As of May 15, 2012, there were 825,640 shares of the registrant s Common Stock outstanding.

FORM 10-Q

QUARTER ENDED MARCH 31, 2012

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CENTRAL FEDERAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 63,284	$ 61,436
Interest-bearing deposits in other financial institutions	1,984	1,984
Securities available for sale	18,108	18,516
Loans held for sale, at fair value	833	1,210
Loans, net of allowance of $5,641 and $6,110	140,282	151,160
FHLB stock	1,942	1,942
Loan servicing rights	35	37
Foreclosed assets, net	2,453	2,370
Premises and equipment, net	5,485	5,534
Assets held for sale	167	167
Other intangible assets	79	89
Bank owned life insurance	4,306	4,273
Accrued interest receivable and other assets	2,482	2,202
	$ 241,440	$ 250,920
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 18,343	$ 18,409
Interest bearing	189,529	198,640
Total deposits	207,872	217,049
Long-term FHLB advances	15,742	15,742
Advances by borrowers for taxes and insurance	124	159
Accrued interest payable and other liabilities	3,326	2,871
Subordinated debentures	5,155	5,155
Total liabilities	232,219	240,976
Stockholders equity		
Preferred stock, Series A, $.01 par value; aggregate liquidation value $7,788 in 2012, $7,691 in 2011 1,000,000 shares authorized; 7,225 shares issued	7,133	7,120
Common stock, $.01 par value, 50,000,000 shares authorized; 937,347 shares issued	9	9
Additional paid-in capital	27,843	27,837
Accumulated deficit	(23,012)	(22,163)
Accumulated other comprehensive income	493	386
Treasury stock, at cost; 111,707 shares	(3,245)	(3,245)
Total stockholders equity	9,221	9,944
	$ 241,440	$ 250,920

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended March 31, 2012	2011
Interest and dividend income		
Loans, including fees	$ 1,891	$ 2,442
Securities	63	155
FHLB stock dividends	22	22
Federal funds sold and other	40	30
	2,016	2,649
Interest expense		
Deposits	593	702
Long-term FHLB advances and other debt	109	167
Subordinated debentures	47	41
	749	910
Net interest income	1,267	1,739
Provision for loan losses	200	1,419
Net interest income after provision for loan losses	1,067	320
Noninterest income		
Service charges on deposit accounts	59	61
Net gains on sales of loans	43	40
Loan servicing fees, net	8	8
Earnings on bank owned life insurance	33	32
Other	15	15
	158	156
Noninterest expense		
Salaries and employee benefits	991	1,041
Occupancy and equipment	74	85
Data processing	142	144
Franchise taxes	55	66
Professional fees	218	301
Director fees	45	46
Postage, printing and supplies	48	48
Advertising and promotion	3	10
Telephone	17	22
Loan expenses	8	10
Foreclosed assets, net	18	33
Depreciation	67	114
FDIC premiums	156	175
Amortization of intangibles	10	10
Regulatory assessment	45	37
Other insurance	42	17
Other	25	31

	1,964	2,190
Net loss	(739)	(1,714)
Preferred stock dividends and accretion of discount on preferred stock	(110)	(104)
Net loss attributable to common stockholders	$ (849)	$ (1,818)
Loss per common share:		
Basic	$ (1.03)	$ (2.20)
Diluted	$ (1.03)	$ (2.20)

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended March 31, 2012	2011
Net loss	$ (739)	$ (1,714)
Other comprehensive income (loss):		
Change in unrealized holding gains (losses) on securities available for sale	107	(65)
Net change in unrealized gains (losses)	107	(65)
Tax effect		
Total other comprehensive income (loss)	107	(65)
Comprehensive loss	$ (632)	$ (1,779)

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(Dollars in thousands except per share data)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2012	$ 7,120	$ 9	$ 27,837	$ (22,163)	$ 386	$ (3,245)	$ 9,944
Net loss				(739)			(739)
Other comprehensive income					107		107
Accretion of discount on preferred stock	13			(13)			
Release of 600 stock-based incentive plan shares			3				3
Stock option expense, net of forfeitures			3				3
Preferred stock dividends				(97)			(97)
Balance at March 31, 2012	$ 7,133	$ 9	$ 27,843	$ (23,012)	$ 493	$ (3,245)	$ 9,221

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(Dollars in thousands except per share data)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2011	$ 7,069	$ 9	$ 27,797	$ (16,313)	$ 672	$ (3,245)	$ 15,989
Net loss				(1,714)			(1,714)
Other comprehensive loss					(65)		(65)
Accretion of discount on preferred stock	13			(13)			
Release of 627 stock-based incentive plan shares, net of forfeitures			8				8
Stock option expense, net of forfeitures			4				4
Preferred stock dividends				(91)			(91)
Balance at March 31, 2011	$ 7,082	$ 9	$ 27,809	$ (18,131)	$ 607	$ (3,245)	$ 14,131

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three months ended March 31, 2012	2011
Net loss	$ (739)	$ (1,714)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	200	1,419
Valuation gain on mortgage servicing rights	(1)	(2)
Depreciation	67	114
Amortization, net	177	192
Originations of loans held for sale	(6,180)	(12,499)
Proceeds from sale of loans held for sale	6,490	13,130
Net gains on sales of loans	(43)	(40)
Loss on disposal of premises and equipment	4	
Stock-based compensation expense	6	13
Net change in:		
Bank owned life insurance	(33)	(32)
Accrued interest receivable and other assets	(280)	26
Accrued interest payable and other liabilities	359	(103)
Net cash from operating activities	27	504
Cash flows from investing activities		
Available-for-sale securities:		
Maturities, prepayments and calls	2,906	2,671
Purchases	(2,537)	
Loan originations and payments, net	10,708	10,396
Additions to premises and equipment	(22)	(1)
Proceeds from the sale of foreclosed assets		1,000
Net cash from investing activities	11,055	14,066
Cash flows from financing activities		
Net change in deposits	(9,199)	21,485
Net change in short-term borrowings from the FHLB and other debt		1,500
Repayments on long-term FHLB advances and other debt		(2,200)
Net change in advances by borrowers for taxes and insurance	(35)	(72)
Net cash from (used by) financing activities	(9,234)	20,713
Net change in cash and cash equivalents	1,848	35,283
Beginning cash and cash equivalents	61,436	34,275
Ending cash and cash equivalents	$ 63,284	$ 69,558
Supplemental cash flow information:		
Interest paid	$ 670	$ 823
Supplemental noncash disclosures:		
Transfers from loans to repossessed assets	$ 83	$
Loans transferred from held for sale to portfolio	(109)	

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 consolidated financial statements include Central Federal Corporation (the Holding Company) and its wholly owned subsidiaries, CFBank, Ghent Road, Inc., and Smith Ghent LLC, together with the Holding Company referred to as the Company. The accompanying unaudited interim 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 (GAAP). Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

In the opinion of the management of the Company, the accompanying unaudited interim consolidated financial statements include all adjustments necessary for a fair presentation of the Company s financial condition and the results of operations for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The financial performance reported for the Company for the three months ended March 31, 2012 is not necessarily indicative of the results that may be expected for the full year. This information should be read in conjunction with the Company s latest Annual Report to Stockholders and Form 10-K. 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 2011 Annual Report that was filed as Exhibit 13.1 to the Company s Form 10-K for the year ended December 31, 2011. The Company has consistently followed those policies in preparing this Form 10-Q.

Reclassifications and Reverse Stock Split: Some items in the prior period financial statements were reclassified to conform to the current presentation. Reclassifications did not impact prior period net loss or total stockholders equity. On May 4, 2012, the Company completed a 1-for-5 reverse stock split, whereby each 5 shares of the Company s common stock were reclassified into one share of common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

Earnings (Loss) Per Common Share: Basic earnings (loss) per common share is net income (loss) available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and the stock warrant.

	Three months ended March 31, 2012	Three months ended March 31, 2011
Basic		
Net loss	$ (739)	$ (1,714)
Less: Preferred dividends and accretion of discount on preferred stock	(110)	(104)
Less: Net loss allocated to unvested share-based payment awards	3	13
Net loss allocated to common stockholders	$ (846)	$ (1,805)
Weighted average common shares outstanding including unvested share-based payment awards	825,447	825,358
Less: Unvested share-based payment awards	(3,300)	(5,705)
Average shares	822,147	819,653
Basic loss per common share	$ (1.03)	$ (2.20)
Diluted		
Net loss allocated to common stockholders	$ (846)	$ (1,805)

Weighted average common shares outstanding for basic loss per common share	822,147	819,653
Add: Dilutive effects of assumed exercises of stock options		
Add: Dilutive effects of assumed exercises of stock warrant		
Average shares and dilutive potential common shares	822,147	819,653
Diluted loss per common share	$ (1.03)	$ (2.20)

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 common share because the Company reported a net loss for the periods presented.

	Three months ended March 31,	
	2012	2011
Stock options	43,066	54,650
Stock warrant	67,314	67,314

<u>Adoption of New Accounting Standards:</u>

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04 to Fair Value Measurement (ASC 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU amends existing guidance to achieve common fair value measurement and disclosure requirements between U.S. and international accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements, but the additional disclosures are included in Note 6.

In June 2011, the FASB issued ASU No. 2011-05 to Comprehensive Income (ASC 220), *Presentation of Comprehensive Income.* This ASU amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively. The adoption of this amendment changed the presentation of the statement of comprehensive income for the Company to two consecutive statements instead of presented as part of the consolidated statement of shareholders equity.

In December 2011, the FASB issued ASU No. 2011-12 to Comprehensive Income (ASC 220), *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05.* This ASU amended the guidance in ASU 2011-05 related to the presentation of the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. The amendments in this ASU are effective at the same time as the amendments in ASU 2011-05 so that entities will not be required to comply with the presentation requirements in ASU 2011-05 that this ASU is deferring. The amendments in this ASU are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

NOTE 2 GOING CONCERN CONSIDERATIONS AND MANAGEMENT S PLANS

Going Concern Considerations:

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. However, the events and circumstances described in this Note create substantial doubt about the Company s ability to continue as a going concern.

On May 25, 2011, the Holding Company and CFBank each consented to the issuance of an Order to Cease and Desist (the Holding Company Order and the CFBank Order, respectively, and collectively, the Orders) by the Office of Thrift Supervision (OTS), the primary regulator of the Holding Company and CFBank at the time the Orders were issued. In July 2011, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Board of Governors of the Federal Reserve System (FED) replaced the OTS as the primary regulator of the Holding Company and the Office of the Comptroller of the Currency (OCC) replaced the OTS as the primary regulator of CFBank.

The Holding Company Order requires it, among other things, to: (i) submit by June 30, 2011 (and update by December 31, 2011 and every December 31 thereafter) a capital plan to regulators that establishes a minimum tangible capital ratio commensurate with the Holding Company s consolidated risk profile, reduces the risk from current debt levels and addresses the Holding Company s cash flow needs; (ii) not pay cash dividends, redeem stock or make any other capital distributions without prior regulatory approval; (iii) not pay interest or principal on any debt or increase any Holding Company debt or guarantee the debt of any entity without prior regulatory approval; (iv) obtain prior regulatory approval for changes in directors and senior executive officers; and (v) not enter into any new contractual arrangement related to compensation or benefits with any director or senior executive officer without prior notification to regulators.

The CFBank Order requires it, among other things, to: (i) have by September 30, 2011, and maintain thereafter, 8% core capital and 12% total risk-based capital, after establishing an adequate allowance for loan and lease losses; (ii) submit by June 30, 2011 (and update by December 31, 2011 and every December 31 thereafter) a capital and business plan to regulators that describes strategies to meet these required capital ratios and contains operating strategies to achieve realistic core earnings; (iii) submit a contingency plan providing for a merger or voluntary dissolution of CFBank if capital does not reach the required levels, which requirement was extended by the OCC until the earlier of 15 days after termination of the stock offering or January 31, 2012, and a further extension of this date has been requested of the OCC; (iv) not originate, participate in or acquire any nonresidential real estate loans or commercial loans without regulatory approval, which prohibition was waived by OCC on November 9, 2011 subject to certain Board approval conditions, loan policies and credit administration procedures; (v) adopt a revised credit administration policy, problem asset reduction plan, management succession plan and liquidity management policy; (vi) limit asset growth to net interest credited on deposit liabilities absent prior regulatory approval for additional growth; (vii) not pay cash dividends or make any other capital distributions without prior regulatory approval; (viii) obtain prior regulatory approval for changes in directors and senior executive officers; (ix) not enter into any new contractual arrangement related to compensation or benefits with any director or senior executive officer without prior notification to regulators; (x) not enter into any significant arrangement or contract with a third party service provider without prior regulatory approval; and (xi) comply with the Federal Deposit Insurance Corporation (FDIC) limits on brokered deposits. As a result of the CFBank Order, CFBank is considered adequately capitalized for regulatory purposes.

The Company has been unprofitable for over the past three years and, unless additional capital is infused into the Holding Company and CFBank, it is unlikely that we will be able to generate profits in the future. This would cause our capital levels to continue to erode. If that happens, the regulators could take additional enforcement action against us, including the imposition of further operating restrictions. The regulators could also direct us to seek a merger partner or liquidate CFBank.

The Holding Company is significantly dependent on dividends from CFBank to provide the liquidity necessary to meet its obligations. As of March 31, 2012, pursuant to the CFBank Order, CFBank may not declare or pay dividends or make any other capital distributions without receiving the prior written approval of the OCC. Future dividend payments by CFBank to the Holding Company would be based on future earnings and the approval of the OCC. The payment of dividends from CFBank to the Holding Company is not likely to be approved by the OCC while CFBank is suffering significant losses.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

NOTE 2 GOING CONCERN CONSIDERATIONS AND MANAGEMENT S PLANS (continued)

The significant directives contained in the Orders, including higher capital requirements, requirements to reduce the level of our criticized and classified assets, growth and operating restrictions, restrictions on brokered deposits, restrictions on certain types of lending and restrictions on dividend payments have impeded and may further impede our ability to operate our business and to effectively compete in our markets. In addition, the regulators must approve any deviation from our business plan, which could limit our ability to make any changes to our business and could negatively impact the scope and flexibility of our business activities.

The requirements of the Orders will remain in effect until terminated, modified or suspended by regulators.

Management s Plans:

The Company announced the terms of a registered common stock offering of up to $30,000 on August 9, 2011. The restructured registered common stock offering consisted of a $24,965 rights offering and a $5,035 offering to a group of standby purchasers. Under the terms of the rights offering, all record holders of the Company s common stock as of February 8, 2012 received, at no charge, one subscription right for each share of common stock held as of the record date. Each subscription right entitled the holder of the right to purchase 6.0474 shares of Company common stock at a subscription price of $1.00 per share. Shares were also available to the public at $1.00 per share. In addition, for each three shares of company stock purchased, purchasers were to receive, at no charge, one warrant to purchase one additional share of common stock at a purchase price of $1.00 per share. The warrants were to be exercisable for three years. The Company had separately entered into a series of standby purchase agreements with a group of investors led by Timothy T. O Dell, Thad R. Perry and Robert E. Hoeweler. Under the standby purchase agreements, the standby purchasers were to acquire 5.0 million shares of Company common stock at a price of $1.00 per share and receive warrants with the same terms and conditions as all purchasers in the rights offering. The standby purchasers had conditioned their purchase of shares of common stock upon the receipt by the Company of at least $16,500 in net proceeds from the rights offering. The registration statement related to the rights offering is on file with the SEC and became effective on February 8, 2012.

The Company was unable to complete this offering and returned all subscriptions received. The Company has modified the terms of the offering and filed a post-effective amendment to its registration statement with the SEC.

The terms of the restructured offering are as follows: a rights offering of up to $25,500 and a $4,500 offering to a group of standby purchasers, as well as a public offering of any unsold shares. Under the terms of the rights offering, all holders of the Company s common stock as of a record date to be established will receive, at no charge, one subscription right for each share of common stock held as of the record date. Each subscription right entitles the holder of the right to purchase 20.5901 shares of Company common stock at a subscription price of $1.50 per share. Shares are also available to the public at $1.50 per share. The Company has separately entered into a series of standby purchase agreements with a group of investors led by Timothy T. O Dell, Thad R. Perry and Robert E. Hoeweler. Under the standby purchase agreements, the standby purchasers will acquire 3.0 million shares of Company common stock at a price of $1.50 per share. The standby purchasers have conditioned their purchase of shares of common stock upon the receipt by the Company of at least $13,500 in net proceeds from the rights offering and a public offering. A post-effective amendment to the registration statement related to the offering is on file with the SEC but has not yet become effective.

A portion of the proceeds from the restructured registered common stock offering is expected to be retained by the Holding Company for general corporate purposes and is estimated to be sufficient to support the Holding Company s cash requirements. Given the uncertainty surrounding CFBank s future ability to pay dividends to the Holding Company, the current levels of problem assets, the continuing depressed economy and the longer periods of time necessary to work out problem assets in the current economy, the Board of Directors and management are relying on completion of the restructured registered common stock offering to provide additional funding to support the Holding Company s working capital needs. Should the restructured registered common stock offering be unsuccessful, there can be no assurance that additional funding sources will be available, which would have a material adverse impact on our financial condition. Without additional capital, it is unlikely that the Holding Company will have sufficient liquidity to continue to meet its operating expenses as they become due. This could result in the Holding Company being subject to additional regulatory restrictions which could ultimately result in the Holding Company being instructed to seek a merger partner or in CFBank being liquidated.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

NOTE 2 GOING CONCERN CONSIDERATIONS AND MANAGEMENT S PLANS (continued)

The Holding Company s available cash at March 31, 2012 is sufficient to cover operating expenses and expenses in connection with the restructured registered common stock offering, at their current projected levels, through approximately June 30, 2012. The Board of Directors elected to defer scheduled dividend payments related to the Preferred Stock, as defined in Note 11 to these consolidated financial statements, beginning with the November 15, 2010 payment, and the interest payments on the subordinated debentures beginning with the December 30, 2010 payment, in order to preserve cash at the Holding Company. The Company expects that the Board will also elect to defer future payments until the Company is recapitalized. Pursuant to the Holding Company Order, the Holding Company may not pay dividends on the Preferred Stock or interest on the subordinated debentures without the prior written notice to and written non-objection from the FED.

As of March 31, 2012, the Company had incurred $915 in costs related to the registered common stock offering that are included in other assets in the consolidated balance sheet. The Company expects to incur additional costs prior to completion of the restructured stock offering. In the event the restructured registered common stock offering is not successful, these costs will be charged against current operations and will have a negative impact on earnings.

Because CFBank is no longer considered to be well-capitalized for regulatory purposes, it is prohibited from accepting or renewing brokered deposits, including reciprocal deposits in the Certificate of Deposit Account Registry Service® (CDARS) program, without FDIC approval. CFBank received limited waivers from the prohibition on renewal of reciprocal CDARS deposits from the FDIC, each for 90 day periods which expired on September 20, 2011, December 19, 2011, March 18, 2012 and a current limited waiver which expires on June 16, 2012. The current limited waiver allows CFBank to roll over or renew core deposits in the reciprocal CDARS program that have yet to mature or have matured and remained with CFBank between March 19, 2012 and June 16, 2012. Management intends to submit additional requests for waivers in the future; however, there can be no assurance that the requests will be granted by the FDIC or that customers will roll over or renew their CDARS deposits even if CFBank is granted additional waivers.

The prohibition on brokered deposits significantly limits CFBank s ability to participate in the CDARS program and impacts CFBank s liquidity management. As a result of the losses in 2009, 2010 and the first quarter of 2011, management had been concerned that CFBank would be restricted from accepting or renewing brokered deposits, in addition to other regulatory restrictions, and moved aggressively in 2011, prior to receipt of the CFBank Order, to build on-balance-sheet liquidity to deal with scheduled brokered deposit maturities and the potential impact of other regulatory restrictions on liquidity. At March 31, 2012, CFBank had $46,806 in brokered deposits with maturity dates from April 2012 through August 2016. At March 31, 2012, cash, unpledged securities and deposits in other financial institutions totaled $65,460, which was sufficient to cover all brokered deposit maturities. Brokered deposit maturities over the next five years are as follows:

March 31, 2013	$ 21,844
March 31, 2014	14,943
March 31, 2015	433
March 31, 2016	9,387
March 31, 2017	199
	$ 46,806

We have taken such actions as we believe are necessary to comply with all requirements of the Orders which are currently effective, except the higher capital requirements, and we are continuing to work toward compliance with the provisions of the Orders having future compliance dates.

These financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

NOTE 3 SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at March 31, 2012 and December 31, 2011 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012				
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities - residential	$ 2,290	$ 204	$	$ 2,494
Collateralized mortgage obligations	15,325	289		15,614
Total	$ 17,615	$ 493	$	$ 18,108

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities - residential	$ 1,475	$ 198	$	$ 1,673
Collateralized mortgage obligations	16,655	204	16	