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CENTRAL FEDERAL CORP
Form 8-K/A
August 12, 2004

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

FORM 8-K/A

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

Date of Report (Date of earliest event reported): June 10, 2004

CENTRAL FEDERAL CORPORATION
(Exact name of registrant as specified in its charter)

| | | |
|---|-----------------------------|---|
| Delaware ----- | 0-25045 ----- | 34-1877137 ----- |
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (IRS Employer Identification Number) |

| | | |
|---|----------------|---------------------------------|
| 2923 Smith Road Fairlawn, Ohio ----- | 44333 ----- | (330) 666-7979 ----- |
| (Address of principal executive office) | (Zip Code) | (Registrant's Telephone Number) |

This Current Report on Form 8-K/A amends the Form 8-K filed by the registrant on June 16, 2004 to report that it had entered into a definitive agreement to acquire RJO Financial Services, Inc. This amendment includes financial statements and pro forma information required to be filed in connection with that acquisition.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial Statements of Businesses Acquired:

(1) audited balance sheets of RJO Financial Services, Inc. as of December 31, 2003 and 2002, and the related statements of operations, changes in equity and cash flows for the years then ended.

INDEPENDENT AUDITORS' REPORT

To the Stockholder
RJO Financial Services, Inc.
dba Reserve Mortgage Services
Akron, Ohio

We have audited the accompanying balance sheets of RJO Financial Services, Inc. dba Reserve Mortgage Services (the Company) as of December 31, 2003 and 2002, and the related statements of operations, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these

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financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RJO Financial Services, Inc. dba Reserve Mortgage Services as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

BOBER, MARKEY, FEDOROVICH & COMPANY

March 5, 2004

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES BALANCE SHEETS December 31, 2003 and 2002

| | 2003 | 2002 |
|--------------------------------------|--------------|--------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 343,205 | \$ 179,311 |
| Accounts receivable | 1,522,606 | 940,071 |
| Investments, fair value | 128,965 | 13,364 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 1,994,776 | 1,132,746 |
| PROPERTY AND EQUIPMENT | | |
| Furniture, fixtures and equipment | 282,575 | 212,123 |
| Accumulated depreciation | (171,201) | (139,390) |
| | ----- | ----- |
| NET PROPERTY AND EQUIPMENT | 111,374 | 72,733 |
| OTHER ASSETS | 12,627 | 5,918 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 2,118,777 | \$ 1,211,397 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| CURRENT LIABILITIES | | |
| Lines of credit | \$ 1,148,413 | \$ 823,451 |
| Current portion of long-term debt | 15,255 | 14,492 |

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| | | |
|--|--------------|--------------|
| Cash overdraft | 567,768 | 216,848 |
| Accounts payable | 46,995 | 23,903 |
| Commissions payable | 5,100 | 21,753 |
| Accrued and withheld payroll taxes | 1,755 | 11,166 |
| Accrued expenses | 6,943 | 9,330 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 1,792,229 | 1,120,943 |
| NONCURRENT LIABILITIES | | |
| Equipment note payable | 10,554 | 25,842 |
| | ----- | ----- |
| TOTAL LIABILITIES | 1,802,783 | 1,146,785 |
| | ----- | ----- |
| STOCKHOLDER'S EQUITY | | |
| Common stock, 750 shares authorized, 1 issued and outstanding, \$500 per share stated value | 500 | 500 |
| Additional paid-in capital | 915,207 | 915,207 |
| Accumulated other comprehensive income (loss) | 10,924 | (2,511) |
| Retained deficit | (610,637) | (848,584) |
| | ----- | ----- |
| TOTAL STOCKHOLDER'S EQUITY | 315,994 | 64,612 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | \$ 2,118,777 | \$ 1,211,397 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
STATEMENTS OF OPERATIONS
December 31, 2003 and 2002

| | 2003 | 2002 |
|-------------------------------|--------------|--------------|
| | ----- | ----- |
| INCOME | \$ 1,753,104 | \$ 1,319,024 |
| COST OF SERVICES RENDERED | 528,592 | 489,516 |
| | ----- | ----- |
| GROSS PROFIT | 1,224,512 | 829,508 |
| | ----- | ----- |
| OPERATING EXPENSES | | |
| Compensation and benefits | 417,882 | 258,660 |
| Payroll and other taxes | 45,882 | 37,981 |
| Advertising | 69,334 | 97,782 |
| Depreciation and amortization | 32,019 | 20,996 |
| Professional fees | 18,127 | 13,226 |
| Meals and entertainment | 16,769 | 14,929 |
| Dues and subscriptions | 4,844 | 2,725 |
| Automobile expenses | 5,797 | 4,505 |
| Insurance | 17,893 | 15,169 |

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| | | |
|------------------------------|------------|------------|
| Postage and delivery | 1,670 | 1,536 |
| Repairs and maintenance | 15,186 | 11,884 |
| Office supplies and expense | 44,805 | 40,460 |
| Telephone and utilities | 46,652 | 33,657 |
| Lease | 49,536 | 44,864 |
| Other operating expenses | 41,165 | 38,125 |
| | ----- | ----- |
| TOTAL OPERATING EXPENSES | 827,561 | 636,499 |
| | ----- | ----- |
| INCOME FROM OPERATIONS | 396,951 | 193,009 |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (1,792) | (2,584) |
| Other income (expense), net | 22,171 | (7,307) |
| | ----- | ----- |
| TOTAL OTHER INCOME (EXPENSE) | 20,379 | (9,891) |
| | ----- | ----- |
| NET INCOME | \$ 417,330 | \$ 183,118 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
 STATEMENTS OF CHANGES IN EQUITY
 December 31, 2003 and 2002

| | Total | Comprehensive Income (Loss) | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) |
|---------------------------------------|------------|--------------------------------|-----------------|----------------------------------|--|
| | ----- | ----- | ----- | ----- | ----- |
| Balance at January 1, 2002 | \$ 105,631 | | \$ 500 | \$ 915,207 | \$ 2,456 |
| Comprehensive income (loss) | | | | | |
| Net income | 183,118 | \$ 183,118 | - | - | - |
| Other comprehensive income (loss): | | | | | |
| Unrealized gain on securities, net | (4,967) | (4,967) | - | - | (4,967) |
| Comprehensive income | | 178,151 | | | |
| Shareholder distributions | (219,170) | | - | - | - |
| Balance at December 31, 2002 | 64,612 | | 500 | 915,207 | (2,511) |
| Comprehensive income (loss) | | | | | |
| Net income | 417,330 | 417,330 | - | - | - |
| Other comprehensive income (loss): | | | | | |
| Unrealized loss on securities, net | 13,435 | 13,435 | - | - | 13,435 |

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| | | | | | | | |
|------------------------------|------------|----|---------|----|---------|----|--------|
| Comprehensive income | | \$ | 430,765 | | | | |
| | | | ===== | | | | |
| Shareholder distributions | (179,383) | | | - | - | - | |
| | | | ----- | | | | |
| Balance at December 31, 2003 | \$ 315,994 | \$ | 500 | \$ | 915,207 | \$ | 10,924 |
| | | | ===== | | ===== | | ===== |

The accompanying notes are an integral part of these financial statements.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
STATEMENTS OF CASH FLOWS
December 31, 2003 and 2002

| | 2003 | 2002 |
|---|------------|------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 417,330 | \$ 183,118 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 31,811 | 20,996 |
| Realized (gain) loss on the sale of investments | (2,166) | 3,924 |
| Loss on disposal of equipment | 674 | 4,849 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (582,535) | 400,907 |
| Other assets | (6,709) | (51) |
| Cash overdraft and accounts payable | 374,012 | (36,181) |
| Accrued expenses | (28,451) | (2,154) |
| | ----- | ----- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 203,966 | 575,408 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments for the purchase of property and equipment | (71,126) | (5,947) |
| Debt used to purchase property and equipment | - | (45,000) |
| Proceeds from the sale of investments | - | 7,410 |
| Payments for the purchase of investments | (100,000) | (7,196) |
| | ----- | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (171,126) | (50,733) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Shareholder distributions | (179,383) | (219,170) |
| Repayment on borrowings | (15,288) | (262,944) |
| Net borrowings on notes payable | 325,725 | 45,000 |
| | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 131,054 | (437,114) |
| | ----- | ----- |
| NET INCREASE IN CASH AND EQUIVALENTS | 163,894 | 87,561 |
| CASH AND EQUIVALENTS AT BEGINNING OF YEAR | 179,311 | 91,750 |
| | ----- | ----- |
| CASH AND EQUIVALENTS AT END OF YEAR | \$ 343,205 | \$ 179,311 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURES: | | |
| Cash paid for interest | \$ 1,792 | \$ 2,584 |
| Cash paid for taxes | \$ 1,329 | \$ 997 |

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The accompanying notes are an integral part of these financial statements.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
NOTES TO FINANCIAL STATEMENTS
December 31, 2003 and 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

RJO Financial Services, Inc. dba Reserve Mortgage Services (the Company) was incorporated on February 7, 1994 and, since August 1998, has been in the business of originating mortgage loans (primarily conventional mortgages) and the subsequent placement with financial institutions at the time of closing.

Revenue Recognition

Substantially all of the Company's operating revenues are recognized at the time a mortgage loan is closed. These loans are then subsequently placed with financial institutions that have, prior to closing, committed to purchase the loans. The loans are sold without recourse.

Property and Equipment

Property and equipment are stated at cost or appraised value. Depreciation is provided using primarily double declining methods over the estimated useful lives of the assets that range from 5-7 years.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash and all highly liquid investments purchased with an original maturity of three months or less.

Concentration of Credit Risk

The Company is a mortgage banker located in northeast Ohio and grants credit to the purchasers of loans that it originates, substantially all of which are financial institutions.

The Company maintains cash balances at a financial institution located in Ohio. The Federal Deposit Insurance Corporation insures deposits up to \$100,000. The Company's uninsured cash balance was \$155,073 and \$30,691 at December 31, 2003, and 2002, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Use of Estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising expense

Advertising costs are expensed as incurred. Advertising costs expensed during 2003 and 2002 amounted to \$69,334 and \$97,782, respectively.

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RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2003 and 2002

Investments

The Company's investments are comprised of equity securities, all classified as securities available for sale, which are carried at their approximate fair value based upon the market prices of those investments at December 31, 2003 and 2002, respectively. The net unrealized holding gains/losses are included as a component of accumulated comprehensive income until realized.

The following summarizes cost and market value at December 31:

| | 2003 | | 2002 | |
|-------------------|--------------|------------|--------------|------|
| | Market Value | Cost | Market Value | Cost |
| Equity securities | \$ 128,964 | \$ 118,040 | \$ 13,364 | \$ |

Market value exceeded cost by \$10,924 and \$2,511 at December 31, 2003 and 2002, respectively.

NOTE 2 - INCOME TAXES

The Company has elected to be taxed as an S Corporation as provided under Section 1362 of the Internal Revenue Code and as a result, income is taxed at the shareholder level. Accordingly, no provision for federal income tax has been made. Also in this regard, comprehensive income is only reported on a before tax basis.

NOTE 3 - RELATED PARTY TRANSACTIONS

As of June 1, 2002, the Company entered into a 5-year lease for office space from the sole shareholder. Rent is \$3,333 per month for the first year of the lease and then increases 3% each year. Rent expense paid by the Company under this lease was \$36,667 for 2003 and \$23,333 for 2002.

NOTE 4 - DEBT OBLIGATIONS

The Company has a revolving credit agreement with a bank. Interest on the outstanding balance is payable monthly at the prime rate (4.0% and 4.25% at December 31, 2003 and 2002, respectively) plus 0.25%. Maximum borrowing under the agreement is \$4,000,000. The outstanding principal balance was \$675,362 and \$356,562 at December 31, 2003 and 2002, respectively. The debt is collateralized by the corresponding pledged loans that have not yet been funded through a third party financial institution. On January 17, 2002 this revolving credit agreement was modified to allow for maximum borrowings of \$3,000,000. No other terms were amended.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2003 and 2002

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The Company has a note payable with a bank. Interest on the outstanding balance is calculated at prime rate (4.0% and 4.25% at December 31, 2003 and 2002, respectively) plus 1.0%. Maximum borrowing under the original agreement was \$250,000. This agreement was amended on January 17, 2002 to allow for maximum borrowings of \$500,000. No other terms of the note were amended. The outstanding principal balance was \$473,051 and \$466,889 at December 31, 2003 and 2002, respectively. The debt is collateralized by the corresponding pledge loans that have not yet been funded through a third party financial institution.

In August 2002, the Company entered into a term note with a bank. The note bears interest at the prime rate (4.25% at 4.75% at December 31, 2003 and 2002, respectively) plus 0.5%, and is payable in monthly installments of principal and interest of \$1,355. This note is secured by equipment and accounts receivable and matures in August 2005. The outstanding balance was \$25,809 and \$40,334 at December 31, 2003 and 2002, respectively.

Future maturities of long-term debt as of December 31, 2003 are as follows:

| | | |
|------|----|--------|
| 2004 | \$ | 15,255 |
| 2005 | | 10,554 |
| | | ----- |
| | \$ | 25,809 |
| | | ===== |

NOTE 5 - OPERATING LEASES

The Company leases automobiles and its office space. Rental expense for these leases amounted to \$49,536 and \$44,864 as of December 31, 2003 and 2002, respectively. This amount includes the related party lease described in Note 3.

Future minimum lease payments are as follows:

| | | |
|------|----|---------|
| 2004 | \$ | 62,057 |
| 2005 | | 55,120 |
| 2006 | | 46,737 |
| 2007 | | 18,760 |
| | | ----- |
| | \$ | 182,674 |
| | | ===== |

NOTE 6 - SUBSEQUENT EVENT

In February 2004, the Company established a tax deferred savings plan (401(k) plan) that covers eligible employees. The Company will make matching contributions of 50% for the first 6% of salary deferrals.

(2) unaudited balance sheet of RJO Financial Services, Inc. as of March 31, 2004 and the related statements of operations, changes in equity and cash flows for the three months ended March 31, 2004 and 2003.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
BALANCE SHEET (unaudited)
March 31, 2004

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ASSETS

| | |
|----------------------------|--------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 10,221 |
| Accounts receivable | 1,248,569 |
| Investments, fair value | 128,965 |
| | ----- |
| TOTAL CURRENT ASSETS | 1,387,755 |
| NET PROPERTY AND EQUIPMENT | 102,186 |
| OTHER ASSETS | 8,034 |
| | ----- |
| TOTAL ASSETS | \$ 1,497,975 |
| | ===== |

LIABILITIES AND STOCKHOLDER'S EQUITY

| | |
|--|--------------|
| CURRENT LIABILITIES | |
| Lines of credit | \$ 957,700 |
| Current portion of long-term debt | 16,152 |
| Cash overdraft | 263,479 |
| Accounts payable | 14,911 |
| Commissions payable | 1,579 |
| Accrued and withheld payroll taxes | 3,835 |
| Accrued expenses | 6,943 |
| | ----- |
| TOTAL CURRENT LIABILITIES | 1,264,599 |
| NONCURRENT LIABILITIES | |
| Equipment note payable | 4,755 |
| | ----- |
| TOTAL LIABILITIES | 1,269,354 |
| STOCKHOLDER'S EQUITY | |
| Common stock, 750 shares authorized, 1 issued and outstanding, \$500 per share stated value | 500 |
| Additional paid-in capital | 915,207 |
| Accumulated other comprehensive income | 10,925 |
| Retained deficit | (698,011) |
| | ----- |
| TOTAL STOCKHOLDER'S EQUITY | 228,621 |
| | ----- |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | \$ 1,497,975 |
| | ===== |

The accompanying notes are an integral part of these financial statements.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
STATEMENTS OF OPERATIONS (unaudited)
For the three months ended March 31, 2004 and 2003

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| | For the three months ended March 31, | |
|-------------------------------|---|------------|
| | 2004 | 2003 |
| | ----- | ----- |
| INCOME | \$ 249,063 | \$ 437,625 |
| COST OF SERVICES RENDERED | 85,277 | 124,422 |
| | ----- | ----- |
| GROSS PROFIT | 163,786 | 313,203 |
| OPERATING EXPENSES | | |
| Compensation and benefits | 73,696 | 87,614 |
| Payroll and other taxes | 8,108 | 13,757 |
| Advertising | 18,870 | 17,543 |
| Depreciation and amortization | 8,059 | 6,167 |
| Professional fees | 4,562 | 2,375 |
| Meals and entertainment | 1,383 | 1,865 |
| Dues and subscriptions | 1,040 | 665 |
| Automobile expenses | 852 | 1,401 |
| Insurance | 619 | 5,003 |
| Postage and delivery | (306) | 278 |
| Repairs and maintenance | 6,220 | 8,900 |
| Office supplies and expense | 5,955 | 4,034 |
| Telephone and utilities | 5,893 | 9,710 |
| Lease | 10,200 | 10,000 |
| Other operating expenses | 6,231 | 4,954 |
| | ----- | ----- |
| TOTAL OPERATING EXPENSES | 151,382 | 174,266 |
| | ----- | ----- |
| INCOME FROM OPERATIONS | 12,404 | 138,937 |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (1,170) | (432) |
| Other income (expense), net | 33 | (964) |
| | ----- | ----- |
| TOTAL OTHER INCOME (EXPENSE) | (1,137) | (1,396) |
| | ----- | ----- |
| NET INCOME | \$ 11,267 | \$ 137,541 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
STATEMENT OF CHANGES IN EQUITY (unaudited)
For the three months ended March 31, 2004

Accumula
Additional Other

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| | Total | Comprehensive Income | Common Stock | Paid-in Capital | Comprehen Income |
|------------------------------------|------------|-------------------------|-----------------|--------------------|---------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2003 | \$ 315,994 | | \$ 500 | \$ 915,207 | \$ 10 |
| Comprehensive income | | | | | |
| Net Income | 11,267 | \$ 11,267 | | | |
| Other comprehensive income: | | | | | |
| Unrealized gain on securities, net | 1 | 1 | | | |
| Comprehensive income | | \$ 11,268 | | | |
| Shareholder distributions | (98,641) | | | | |
| Balance at March 31, 2004 | \$ 228,621 | | \$ 500 | \$ 915,207 | \$ 10 |

The accompanying notes are an integral part of these financial statements.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES
STATEMENTS OF CASH FLOWS (unaudited)
For the three months ended March 31, 2004 and 2003

| | For the three months ended March 31, | |
|--|---|-------------|
| | 2004 | 2003 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 11,267 | \$ 137,541 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 8,059 | 6,167 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 274,037 | (2,022,096) |
| Other assets | 4,558 | 850 |
| Cash overdraft and accounts payable | (336,373) | (110,049) |
| Accrued expenses | (1,441) | (9,756) |
| Other | 1,165 | - |
| NET CASH (USED IN) OPERATING ACTIVITIES | (38,728) | (1,997,343) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments for the purchase or property and equipment | - | (17,273) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | - | (17,273) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Shareholder distributions | (98,641) | (82,417) |
| Proceeds from (repayments on) borrowings | (195,615) | 2,057,425 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (294,256) | 1,975,008 |
| NET (DECREASE) IN CASH AND EQUIVALENTS | (332,984) | (39,608) |
| CASH AND EQUIVALENTS AT BEGINNING OF YEAR | 343,205 | 179,311 |
| CASH AND EQUIVALENTS AT END OF YEAR | \$ 10,221 | \$ 139,703 |

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SUPPLEMENTAL DISCLOSURES:

| | | |
|------------------------|----------|--------|
| | ===== | ===== |
| Cash paid for interest | \$ 1,170 | \$ 432 |
| Cash paid for taxes | - | 293 |

The accompanying notes are an integral part of these financial statements.

RJO FINANCIAL SERVICES, INC. DBA RESERVE MORTGAGE SERVICES

NOTES TO FINANCIAL STATEMENTS

For the three months ended March 31, 2004

NOTE 1 - BASIS OF PRESENTATION

In the opinion of the management of RJO Financial Services, Inc. dba Reserve Mortgage Services (the Company), the accompanying financial statements for the three months ended March 31, 2004 and 2003 include all adjustments necessary for a fair presentation of the financial condition and the results of operations for those periods. The financial performance reported for the Company for the three months ended March 31, 2004 is not necessarily indicative of the results to be expected for the full year. The accompanying financial statements should be read with the Company's audited financial statements for the period ended December 31, 2003 and reference is made to the Company's accounting policies described in Note 1 of the Notes to Financial Statements contained in the audited financial statements. The Company has consistently followed those policies in preparing the accompanying financial statements.

NOTE 2 - PENDING BUSINESS COMBINATION

On June 10, 2004, the Company entered into a definitive agreement with Central Federal Corporation whereby the Company will sell all of the outstanding common stock of RJO Financial Services, Inc. for 153,846 shares of Central Federal Corporation Common Stock. Based on the \$14.06 average closing price of Central Federal Corporation Common Stock during the week before and after the announcement on June 10, 2004, the value of the sale of the Company was approximately \$2.2 million. The transaction is subject to regulatory approval and is expected to be completed during the third quarter of 2004.

(b) Pro Forma Financial Information

(1) Following is the unaudited pro forma condensed combined consolidated balance sheet of Central Federal Corporation as of March 31, 2004, assuming the acquisition of RJO Financial Services, Inc. was completed at that date.

Central Federal Corporation
 RJO Financial Services, Inc.
 Pro Forma Condensed Combined Consolidated Balance Sheet (unaudited)
 March 31, 2004

| | |
|------------|-------------|
| | At March 31 |
| ----- | |
| Historical | P |
| ----- | Ad |

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| | Central Federal Corporation | RJO Financial Services, Inc. | i (d) |
|---|--------------------------------|---------------------------------|----------|
| | ----- | ----- | ----- |
| Assets | | | |
| Cash and cash equivalents | \$ 9,560 | \$ 10 | |
| Interest-bearing deposits in other financial institutions | 1,587 | | |
| Securities available for sale | 25,335 | 129 | |
| Accounts receivable | - | 1,056 | |
| Loans, net | 65,459 | 193 | |
| Premises and equipment, net | 2,263 | 102 | |
| Goodwill | | | |
| Intangible assets | | | |
| Other assets | 9,954 | 8 | |
| | ----- | ----- | |
| | \$ 114,158 | \$ 1,498 | \$ |
| | ===== | ===== | ===== |
| Liabilities and shareholders' equity | | | |
| Deposits | \$ 74,882 | - | |
| Federal Home Loan Bank advances and other debt | 18,705 | 1,242 | |
| Other liabilities | 962 | 27 | |
| | ----- | ----- | |
| Total liabilities | 94,549 | 1,269 | |
| Shareholders' equity | | | |
| Preferred stock | - | - | |
| Common stock | 23 | 1 | |
| Additional paid-in capital | 11,932 | 915 | |
| Retained earnings | 10,504 | (698) | |
| Accumulated other comprehensive income | 408 | 11 | |
| Unearned stock based incentive plan shares | (386) | - | |
| Treasury stock | (2,872) | - | |
| | ----- | ----- | |
| Total shareholders' equity | 19,609 | 229 | |
| | ----- | ----- | |
| | \$ 114,158 | \$ 1,498 | \$ |
| | ===== | ===== | ===== |

See accompanying notes to pro forma condensed combined consolidated financial statements.

(2) Following is the unaudited pro forma condensed combined consolidated statement of operations of Central Federal Corporation for the year ended December 31, 2003, assuming the acquisition of RJO Financial Services, Inc. was completed at the beginning of the year then ended.

Central Federal Corporation
RJO Financial Services, Inc.
Pro Forma Condensed Combined Consolidated Statement of Operations (unaudited)

| Year ended December 31, 2003 | | |
|------------------------------|------------------|--------------------------|
| ----- | | |
| Historical | | |
| ----- | | |
| Central | RJO Financial | Pro Forma Adjustments |

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| | Federal Corporation | Services, Inc. | increase (decrease) | Footnote Reference | P C |
|--|------------------------|-------------------|------------------------|-----------------------|--------|
| | ----- | ----- | ----- | ----- | ----- |
| Interest and dividend income | | | | | |
| Loans, including fees | \$ 4,203 | | | | \$ |
| Securities | 939 | | | | |
| Federal Home Loan Bank stock dividends | 141 | | | | |
| Federal funds sold and other | 152 | | | | |
| | ----- | | | | |
| | 5,435 | | | | |
| Interest expense | | | | | |
| Deposits | 1,570 | | | | |
| Debt | 1,951 | 2 | | | |
| | ----- | ----- | | | |
| | 3,521 | 2 | | | |
| Net interest income | 1,914 | (2) | | | |
| Provision for loan losses | 102 | | | | |
| | ----- | ----- | | | |
| Net interest income after provision for loan losses | 1,812 | (2) | | | |
| Noninterest income | | | | | |
| Service charges on deposit accounts | 165 | | | | |
| Net gain on sales of loans | 429 | 1,225 | | | |
| Earnings on bank owned life insurance | 188 | | | | |
| Other | 148 | 22 | | | |
| | ----- | ----- | | | |
| | 930 | 1,247 | | | |
| Noninterest expense | | | | | |
| Salaries and employee benefits | 3,549 | 464 | | | |
| Occupancy and equipment | 224 | 65 | | | |
| Data processing | 246 | | | | |
| Franchise taxes | 301 | | | | |
| Professional fees | 673 | 18 | | | |
| Director fees | 119 | | | | |
| Supplies | 173 | 45 | | | |
| Depreciation and amortization | 350 | 32 | 135 | (4) | |
| Other | 469 | 204 | | | |
| | ----- | ----- | ----- | | |
| | 6,104 | 828 | 135 | | |
| | ----- | ----- | ----- | | |
| Income (loss) before income taxes | (3,362) | 417 | (135) | | |
| Income tax expense (benefit) | (988) | | 96 | (5) | |
| | ----- | ----- | ----- | | |
| Net income (loss) | \$ (2,374) | \$ 417 | \$ (231) | | \$ |
| | ===== | ===== | ===== | | ===== |
| Loss per share | | | | | |
| Basic | \$ (1.31) | | | (6) | \$ |
| Diluted | (1.31) | | | (6) | |

See accompanying notes to pro forma condensed combined consolidated financial statements.

(3) Following is the unaudited pro forma condensed combined consolidated statement of operations of Central Federal Corporation for the quarter ended March 31, 2004, assuming the acquisition of RJO Financial Services, Inc. was completed at the beginning of the quarter then ended.

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Central Federal Corporation
RJO Financial Services, Inc.

Pro Forma Condensed Combined Consolidated Statement of Operations (unaudited)

| | Quarter ended March 31, 2004 | | | Footnote Reference | P C |
|--|------------------------------|---------------------------------------|--|-----------------------|--------|
| | Historical | RJO Financial Services, Inc. | Pro Forma Adjustments increase (decrease) | | |
| Interest and dividend income | | | | | |
| Loans, including fees | \$ 970 | | | | \$ |
| Securities | 242 | | | | |
| Federal Home Loan Bank stock dividends | 36 | | | | |
| Federal funds sold and other | 23 | | | | |
| | ----- | | | | |
| | 1,271 | | | | |
| Interest expense | | | | | |
| Deposits | 324 | | | | |
| Debt | 76 | 1 | | | |
| | ----- | ----- | | | |
| | 400 | 1 | | | |
| Net interest income | 871 | (1) | | | |
| Provision for loan losses | 36 | | | | |
| | ----- | ----- | | | |
| Net interest income after provision for loan losses | 835 | (1) | | | |
| Noninterest income | | | | | |
| Service charges on deposit accounts | 31 | | | | |
| Net gain on sales of loans | 17 | 164 | | | |
| Earnings on bank owned life insurance | 34 | | | | |
| Other | 10 | | | | |
| | ----- | ----- | | | |
| | 92 | 164 | | | |
| Noninterest expense | | | | | |
| Salaries and employee benefits | 726 | 82 | | | |
| Occupancy and equipment | 54 | 18 | | | |
| Data processing | 114 | | | | |
| Franchise taxes | 56 | | | | |
| Professional fees | 65 | 4 | | | |
| Director fees | 40 | | | | |
| Supplies | 31 | 5 | | | |
| Depreciation and amortization | 69 | 8 | 34 | (4) | |
| Other | 200 | 35 | | | |
| | ----- | ----- | ----- | | |
| | 1,355 | 152 | 34 | | |
| | ----- | ----- | ----- | | |
| Income (loss) before income taxes | (428) | 11 | (34) | | |
| Income tax expense (benefit) | (160) | | (8) | (5) | |
| | ----- | ----- | ----- | | |
| Net income (loss) | \$ (268) | \$ 11 | \$ (26) | | \$ |
| | ===== | ===== | ===== | | |
| Loss per share | | | | | |
| Basic | \$ (0.13) | | | (7) | \$ |
| Diluted | (0.13) | | | (7) | |

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See accompanying notes to pro forma condensed combined consolidated financial statements.

Central Federal Corporation
RJO Financial Services, Inc.

Notes to Pro Forma Condensed Combined Consolidated Financial Statements

- (1) Represents the estimate of the excess of the total direct acquisition costs over the estimated fair value of the net assets acquired. For purposes of these pro forma condensed combined consolidated financial statements, Central Federal Corporation is assumed to acquire 100% of the outstanding shares of RJO Financial Services, Inc. by issuing 153,846 shares of Central Federal Corporation common stock valued at \$2.2 million.
- (2) Represents elimination of RJO Financial Services, Inc. equity and issuance of Central Federal Corporation shares.
- (3) Represents accrual of certain acquisition costs totaling \$60,000 and deferred federal income tax liability associated with identified intangible assets totaling \$121,000.
- (4) Represents fair value of identified intangible associated with prior owner retention and fair value of noncompete agreement. The intangible asset associated with prior owner retention totaling \$331,000 is assumed to be expensed to amortization expense over 3 years. The value of the noncompete agreement totaling \$25,000 is assumed to be expensed to amortization expense over 1 year.
- (5) Represents federal income tax on RJO Financial Services, Inc. income at 34%. Prior to the acquisition by Central Federal Corporation, RJO Financial Services, Inc. was an S-Corp and, as such, income was not taxed at the corporate level.
- (6) Pro forma basic and diluted loss per share is based on 1,969,056 weighted average shares outstanding for the year ended December 31, 2003.
- (7) Pro forma basic and diluted loss per share is based on 2,144,092 weighted average shares outstanding for the quarter ended March 31, 2004.

(c) Exhibits

2.0 Stock Purchase Agreement by and among Central Federal Corporation and CFBank and RJO Financial Services, Inc. and Richard J. O'Donnell dated June 10, 2004

23.1 Consent of Independent Registered Public Accounting Firm

SIGNATURES

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

Central Federal Corporation

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Therese Ann Liutkus

Date: August 12, 2004

By: /s/ Therese Ann Liutkus

Therese Ann Liutkus, CPA
Chief Financial Officer