

CENTRAL FEDERAL CORP
Form 10-Q
August 14, 2014
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, 2014

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)

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

7000 North High St., Worthington, Ohio 43085

(Address of principal executive offices) (Zip Code)

(614) 334-7979

(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 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 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

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 August 8, 2014, there were 15,823,710 shares of the registrant's Common Stock outstanding.

CENTRAL FEDERAL CORPORATION

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CENTRAL FEDERAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and cash equivalents	\$	18,881
Interest-bearing deposits in other financial institutions		\$ 19,160
Securities available for sale		1,486
Loans held for sale, at fair value		1,982
Loans, net of allowance of \$5,871 and \$5,729		8,635
FHLB stock		3,259
Foreclosed assets, net		3,285
Premises and equipment, net		247,675
Bank owned life insurance		207,141
Accrued interest receivable and other assets		1,942
Total assets	\$	1,636
		3,839
		4,600
		2,504
		2,848
		294,457
		\$ 255,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest bearing	\$	30,215
Interest bearing		\$ 27,652
Total deposits		212,506
FHLB advances		180,657
Other secured borrowings		242,721
Advances by borrowers for taxes and insurance		208,309
Accrued interest payable and other liabilities		13,000
Subordinated debentures		10,000
Total liabilities		-
		6,526
		168
		575
		4,240
		2,319
		5,155
		5,155

Sardar Biglari

EXHIBIT A

Relative Shareholder Returns

	Total Shareholder Returns				
	1-Year	3-Year	5-Year	7-Year	10-Year
Cracker Barrel	(19.7 %)	63.5 %	10.2 %	26.7 %	111.0%
S&P Restaurant Index	22.9 %	70.3 %	103.5 %	202.8 %	333.6 %
S&P 600 Restaurant Index	(4.4 %)	30.2 %	(7.6 %)	11.8 %	90.3 %
S&P 1500 Restaurant Index	21.5 %	70.2 %	82.0 %	150.4 %	260.4 %

Relative Shareholder Returns - Equal Weight

	Total Shareholder Returns				
	1-Year	3-Year	5-Year	7-Year	10-Year
Cracker Barrel	(19.7 %)	63.5 %	10.2 %	26.7 %	111.0%
S&P Restaurant Index (Equal Weight)	31.6 %	156.9 %	162.2 %	245.0 %	392.8 %
S&P 600 Restaurant Index (Equal Weight)	0.6 %	43.2 %	1.9 %	26.8 %	143.2 %
S&P 1500 Restaurant Index (Equal Weight)	8.3 %	66.8 %	34.3 %	74.4 %	200.0 %

	Number of Constituents	Cumulative Market Cap (\$ Billions)
S&P Restaurant Index	5	156.6
S&P 600 Restaurant Index	16	10.4
S&P 1500 Restaurant Index	26	176.0

Notes

The S&P Restaurant Index is a widely used capitalization-weighted index of the restaurant companies in the S&P 500 Index. Cracker Barrel Old Country Store, Inc. (“Cracker Barrel”) in its November 21, 2011 letter compared itself to the S&P 500 Index but not to the restaurant companies in the S&P 500 Index. Instead, Cracker Barrel compared itself to the S&P 600 Restaurant Index. We believe the S&P Restaurant Index and the S&P 1500 Restaurant Index are more appropriate benchmarks than the S&P 600 Restaurant Index. As disclosed above, the 16 companies that comprise the S&P 600 Restaurant Index have an aggregate market capitalization of only \$10.4 billion, of which Cracker Barrel represents approximately 8.8%. In contrast, the S&P 1500 Restaurant Index is comprised of 26 companies with aggregate market capitalization of \$176.0 billion, of which Cracker Barrel represents only approximately 0.5%. Accordingly, we believe that the S&P Restaurant Index and S&P 1500 Restaurant Index are broader representations of the performance of the restaurant industry.

Cracker Barrel is a constituent of both the S&P 1500 Restaurant Index and the S&P 600 Restaurant Index. All share prices used to calculate Total Shareholder Return and market capitalization are as of September 30, 2011.

The S&P Restaurant Index is a capitalization-weighted index of the restaurant companies in the S&P 500 Index. The S&P Restaurant Index is comprised of Darden Restaurants Inc., Chipotle Mexican Grill Inc., McDonald’s Corp., Starbucks Corp., and Yum! Brands Inc.

The S&P 600 Restaurant Index is a capitalization-weighted index of the restaurant companies in the S&P 600 Index. The S&P 600 Restaurant Index is comprised of BJ's Restaurants Inc, Biglari Holdings Inc., Buffalo Wild Wings, CEC Entertainment Inc., Cracker Barrel Old Country Store Inc., DineEquity Inc., Jack in the Box Inc., O'Charleys Inc., PF Chang's China Bistro Inc., Papa John's Intl Inc., Peets Coffee & Tea Inc., Red Robin Gourmet Burgers, Ruby Tuesday Inc., Ruth's Hospitality Group, Inc., Sonic Corp. and Texas Roadhouse.

The S&P 1500 Restaurant Index is a capitalization-weighted index of the restaurant companies in the S&P 1500 Index. The S&P 1500 Restaurant Index is comprised of all companies included in the S&P Restaurant Index and S&P 600 Restaurant Index, as well as Bob Evans Farms, Brinker Intl Inc., Cheesecake Factory Inc., Panera Bread Co., and The Wendy's Company.

The S&P Restaurant Index (Equal Weight) is derived from, and has the same constituents as, the capitalization weighted S&P Restaurant Index, but each company in such index is weighted on an equal basis. The S&P 600 Restaurant Index (Equal Weight) is derived from, and has the same constituents as, the capitalization weighted S&P 600 Restaurant Index, but each company in such index is weighted on an equal basis. The S&P 1500 Restaurant Index (Equal Weight) is derived from, and has the same constituents as, the capitalization weighted S&P 1500 Restaurant Index, but each company in such index is weighted on an equal basis.

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**EXHIBIT B: PUBLICLY TRADED RESTAURANT COMPANIES WHOSE DIRECTORS SERVE AS
THE DIRECTOR OR OFFICER OF ANOTHER RESTAURANT COMPANY**

Following is a list of restaurant companies traded on the New York Stock Exchange or Nasdaq that have one or more directors who serve as a director or officer of another restaurant company. All information presented herein is based solely on information made publicly available in filings with the Securities Exchange Commission.

Publicly-traded restaurant companies listed on the NYSE or NASDAQ – as of 12/1/2011.

Publicly-traded restaurant companies listed on the NYSE or NASDAQ – as of 12/1/2011.

EXHIBIT C

Following are provisions of the Tennessee Business Combination Act and Tennessee Control Share Acquisition Act referenced in the attached letter. These provisions are excerpts from these statutes and are qualified in their entirety by reference to the full text of such statutes.

Tennessee Code

Business Combination Act

48-103-203. Part definitions.

As used in this part, unless the context otherwise requires:

...

(11) "Interested shareholder," when used in reference to any resident domestic corporation, means any person (other than such resident domestic corporation or any subsidiary of such resident domestic corporation) that:

(A) (i) Is the beneficial owner, directly or indirectly, of ten percent (10%) or more of the voting power of any class or series of the then outstanding voting stock of such resident domestic corporation; or

(ii) Is an affiliate or associate of such resident domestic corporation and at any time within the five-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of ten percent (10%) or more of the voting power of any class or series of the then outstanding stock of such resident domestic corporation;

...

(17) "Share acquisition date," with respect to any person and any resident domestic corporation, means the date that such person first becomes an interested shareholder of such resident domestic corporation;

...

48-103-205. Business combination prohibited for five-year period -- Exceptions.

Notwithstanding any other applicable provisions which may be contained in the Tennessee Business Corporation Act, compiled in chapters 11-27 of this title, or other Tennessee statutes to the contrary, no resident domestic corporation shall engage in any business combination, or vote, consent, or otherwise act to authorize a subsidiary of the resident domestic corporation to engage in any business combination, with, with respect to, proposed by or on behalf of, or pursuant to any agreement, arrangement or understanding (whether or not in writing) with any interested shareholder of such resident domestic corporation or any affiliate or associate of such interested shareholder for a period of five (5) years following such interested shareholder's share acquisition date unless:

(1) Such business combination or the transaction which resulted in the shareholder becoming an interested shareholder is approved by the board of directors of such resident domestic corporation prior to such interested shareholder's share acquisition date, and the proposed business combination satisfies any additional applicable requirements imposed by law and by the charter or bylaws of such resident domestic corporation; or

(2) The business combination is not subject to regulation under this part by virtue of the provisions of § 48-103-207.

* * *

Control Share Acquisition Act

48-103-302. Part definitions.

As used in this part, unless the context otherwise requires:

...

(3) (A) "Control share acquisition" means the acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares. All shares acquired within ninety (90) days and all shares acquired pursuant to a plan to make a control share acquisition shall be deemed to have been acquired in the same acquisition for purposes of this subdivision (3);

...

(4) "Control shares" means shares which, but for the provisions of this part, would have voting power with respect to shares of a corporation that, when added to all other shares of the corporation owned by a person or with respect to which that person may exercise or direct the exercise of voting power, except by virtue of a revocable proxy or written consent, would entitle that person, immediately upon acquisition of the shares, to exercise or direct the exercise of voting power of the corporation in the election of directors within any of the following ranges of voting power:

(A) One fifth (1/5) or more but less than one third (1/3) of all voting power;

(B) One third (1/3) or more but less than a majority of all voting power; or

(C) A majority or more of all voting power;

provided, that "control shares" includes such shares only to the extent to which their acquisition causes the acquiring person to exceed any threshold of voting power set forth above for which approval has not been obtained previously pursuant to § 48-103-307;

...

(6) "Interested shares" means the shares of a corporation which are owned, or with respect to which an irrevocable proxy is held, by:

(A) An acquiring person;

(B) Any officer of the corporation; or

(C) Any employee of the corporation who is also a director of the corporation;

...

48-103-303. Voting rights generally.

Control shares of a corporation that are acquired in a control share acquisition shall have only such voting rights as shall be conferred pursuant to § 48-103-307.

48-103-307. Shareholder approval of voting rights.

Control shares acquired in a control share acquisition shall have the same voting rights as all other shares of the same class or series only if approved by resolution of the corporation's shareholders at an annual or special meeting convened pursuant to § 48-103-306. Such resolution must be approved at such meeting by the holders of a majority of all of the shares entitled to vote generally with respect to the election of directors except interested shares, which shall not be entitled to vote with respect to such resolution. If no such resolution is approved, such shares shall regain their voting rights upon transfer to another person unless such transfer constitutes a control share acquisition by the acquiror, in which case the voting rights of such shares shall be subject to the provisions hereof. Sections 48-17-104 and 48-17-208 shall not apply to the shareholder approval contemplated by this part.

* * *

CERTAIN INFORMATION CONCERNING PARTICIPANTS

Biglari Holdings Inc., an Indiana corporation ("Biglari Holdings"), together with the other participants named below, has filed with the Securities and Exchange Commission ("SEC") a definitive proxy statement and accompanying proxy card to be used to solicit votes for the election of Sardar Biglari to the Board of Directors of Cracker Barrel Old Country Store, Inc., a Tennessee corporation (the "Company"), at the 2011 annual meeting of shareholders of the Company.

BIGLARI HOLDINGS STRONGLY ADVISES ALL SHAREHOLDERS OF THE COMPANY TO READ THE PROXY STATEMENT AND OTHER PROXY MATERIALS AS THEY BECOME AVAILABLE BECAUSE THEY CONTAIN, AND WILL CONTAIN, IMPORTANT INFORMATION. SUCH PROXY MATERIALS ARE AVAILABLE AT NO CHARGE ON THE SEC'S WEB SITE AT [HTTP://WWW.SEC.GOV](http://www.sec.gov). IN ADDITION, THE PARTICIPANTS IN THIS PROXY SOLICITATION WILL PROVIDE COPIES OF THE PROXY STATEMENT WITHOUT CHARGE UPON REQUEST. REQUESTS FOR COPIES SHOULD BE DIRECTED TO THE PARTICIPANTS' PROXY SOLICITOR, INNISFREE M&A INCORPORATED, TOLL-FREE AT (888) 750-5834, BANKS AND BROKERS CALL COLLECT AT (212) 750-5833.

The participants in this proxy solicitation are Biglari Holdings, Biglari Capital Corp., a Texas corporation ("BCC"), The Lion Fund, L.P., a Delaware limited partnership (the "Lion Fund"), and Sardar Biglari.

As of the date hereof, Biglari Holdings directly owns 2,147,887 shares of Common Stock of the Company. As of the date hereof, the Lion Fund directly owns 140,100 shares of Common Stock. Each of BCC, as the general partner of the Lion Fund, and Biglari Holdings, as the parent of BCC, may be deemed to beneficially own the shares of Common Stock directly owned by the Lion Fund. Mr. Biglari, as the Chairman and Chief Executive Officer of each of BCC and Biglari Holdings, may be deemed to beneficially own the shares of Common Stock directly owned by Biglari Holdings and the Lion Fund.

As members of a "group" for the purposes of Rule 13d-5(b)(1) of the Securities Exchange Act of 1934, as amended, each of the participants in this proxy solicitation is deemed to beneficially own the shares of Common Stock of the Company beneficially owned in the aggregate by the other participants. Each of the participants in this proxy solicitation disclaims beneficial ownership of such shares of Common Stock except to the extent of his or its pecuniary interest therein.