PARK OHIO HOLDINGS CORP
Form DEF 14A
April 18, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A
(RULE 14a-101)
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

PARK-OHIO HOLDINGS CORP.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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PARK-OHIO HOLDINGS CORP.
23000 Euclid Avenue
Cleveland, Ohio 44117

Notice of 2007 Annual Meeting of Shareholders

The 2007 annual meeting of shareholders of Park-Ohio Holdings Corp., an Ohio corporation, will be held at The Manor, 24111 Tungsten/Rockwell Road, Euclid, Ohio 44117, on Thursday, May 24, 2007, at 11 A.M., Cleveland Time. The purposes of the meeting are:

1. To elect three directors to serve until the 2010 annual meeting of shareholders; and

2. To act on other matters that are properly brought before the Annual Meeting or any adjournments, postponements or continuations thereof.

The Board of Directors set March 30, 2007 as the record date for the Annual Meeting. This means that owners of Common Stock at the close of business on that date are entitled to (1) receive notice of the Annual Meeting and (2) vote at the Annual Meeting and any adjournments, postponements or continuations of the Annual Meeting.

You are invited to attend the Annual Meeting and urged to mark, sign and return the proxy card in the enclosed envelope, regardless of whether you expect to attend the Annual Meeting. No postage is required if mailed in the United States. Your proxy will not be used if you attend the Annual Meeting and vote in person. If you attend the Annual Meeting, you may be asked to present a valid picture identification.

By Order of the Board of Directors

Robert D. Vilsack
Secretary

April 19, 2007

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PARK-OHIO HOLDINGS CORP.
23000 Euclid Avenue
Cleveland, Ohio 44117

Proxy Statement for
Annual Meeting of Shareholders
To Be Held On May 24, 2007

GENERAL INFORMATION

The Board of Directors of Park-Ohio Holdings Corp. is furnishing this proxy statement in order to solicit proxies on its behalf to be voted at our 2007 annual meeting of shareholders. The Annual Meeting will be held at The Manor, 24111 Tungsten/Rockwell Road, Euclid, Ohio 44117 on Thursday, May 24, 2007, at 11 A.M., Cleveland Time, and any and all adjournments, postponements or continuations thereof.

Proxy materials are first being mailed to shareholders on or about April 19, 2007. A shareholder giving a proxy may revoke it, without affecting any vote previously taken, by a later appointment received by us prior to the Annual Meeting or by giving notice to us in writing or in open meeting. Attendance at the meeting will not in itself revoke a proxy. Shares represented by properly executed proxies will be voted at the meeting. If a shareholder has specified how the proxy is to be voted with respect to a matter listed on the proxy, it will be voted in accordance with such specifications. If no specification is made, the executed proxy will be voted FOR the election of the nominees for directors.

The record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting is March 30, 2007. As of March 30, 2007, there were issued and outstanding 11,373,757 shares of our Common Stock, par value $1.00 per share. Each share is entitled to one vote on each matter presented at the Annual Meeting. Our Articles of Incorporation do not provide for cumulative voting in the election of directors. The affirmative vote of a plurality of the shares of Common Stock represented at the Annual Meeting is required to elect Patrick V. Auletta, Dan T. Moore III and James W. Wert as directors to serve until the 2010 annual meeting of shareholders.

We are not aware of any matters other than those described in this proxy statement which will be presented to the Annual Meeting for action on the part of the shareholders. If any other matters are properly brought before the meeting, of which we did not have notice of on or prior to February 28, 2007, or that applicable law otherwise permits proxies to vote on a discretionary basis, it is the intention of the persons named in the accompanying proxy to vote the shares to which the proxy relates thereon in accordance with their best judgment. Abstentions and broker non-votes will be counted as present at the meeting for purposes of determining a quorum, but will not be counted as voting, except as otherwise required by law and indicated herein.

The cost of soliciting proxies, including the charges and expenses incurred by brokerage firms and other persons for the forwarding of proxy materials to the beneficial owners of such shares, will be borne by us. Proxies may be solicited by our officers and employees by letter, by telephone or in person. Such individuals will not be additionally compensated but may be reimbursed by us for reasonable out-of-pocket expenses incurred in connection therewith. In addition, we have retained Morrow & Co., Inc., a professional proxy soliciting firm, to assist in the solicitation of proxies and will pay such firm a fee, estimated to be approximately $4,000, plus reimbursement of out-of-pocket expenses.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

General

The authorized number of directors is presently fixed at nine, divided into three classes of three members. The directors of each class are elected for three-year terms so that the term of office of one class of directors expires at each annual meeting. Proxies may only be voted for the nominees identified in the section entitled Nominees for Election.

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The class of directors to be elected in 2007, who will hold their positions for a term of three years and until the election of their successors, has been fixed at three. Unless otherwise directed, the persons named in the accompanying proxy will vote the proxies received by them (unless authority to vote is withheld) in favor of electing to that class: Patrick V. Auletta, Dan T. Moore III and James W. Wert, all of whom have been previously elected as directors by shareholders. If any nominee is not available at the time of election, the proxy holders may vote in their discretion for a substitute or such vacancy may be filled later by the Board. We have no reason to believe any nominee will be unavailable.

Lewis E. Hatch and Lawrence O. Selhorst were members in the class of directors whose term expires at the 2008 annual meeting of shareholders. Messrs. Hatch and Selhorst retired effective at the 2006 annual meeting of Shareholders. The Board of Directors continues to conduct searches for suitable candidates for directors to fill the vacancies created by the resignations of Messrs. Hatch and Selhorst. Accordingly, the class of directors whose term expires in 2008 consists of Mr. E. Crawford along with the two vacancies.

Vote Required and Recommendation of The Board of Directors

The affirmative vote of a plurality of the shares of Common Stock represented at the Annual Meeting is required to elect Patrick V. Auletta, Dan T. Moore III and James W. Wert as directors to serve until the 2010 annual meeting of shareholders.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR PATRICK V. AULETTA, DAN T. MOORE III AND JAMES W. WERT.

Biographical Information

Information is set forth below regarding the nominees for election and the directors who will continue in office as directors after the Annual Meeting, including their ages, principal occupations during at least the past five years and other directorships presently held. Also set forth is the date each was first elected as a director.

Nominees for Election

Name	Age	Principal Occupation and Other Directorships
Patrick V. Auletta (a,b,d)	56	Director since 2004; President Emeritus of KeyBank National Association (financial services company) since 2005; President of KeyBank National Association from 2001 to 2004; has over 34 years of banking experience at KeyBank. Trustee of Cleveland Clinic Foundation.
Dan T. Moore III (c,d)	67	Director since 2003; Chief Executive Officer of Dan T. Moore Co. and related companies (Soundwich, Flow Polymers, Impact Ceramics LLC and Team Wendy) (research and development of advanced materials) since 1969. Director of Invacare Corporation and Hawk Corporation.
James W. Wert (a,b,c,d)	60	Director since 1992 and Vice Chairman since 2002; Chief Executive Officer and President since 2003 and Vice President from 2000 to 2002, Clanco Management Corporation (registered investment

advisor); formerly Senior Executive Vice President and Chief Investment Officer of KeyCorp (financial services company) from 1995 to 1996 and Chief Financial Officer, of KeyCorp and predecessor companies from 1990 to 1995. Director of Continental Global Group, Inc., Marlin Business Services Corp. and Clanco Management Corp.

Directors Continuing in Office with Term Expiring in 2008

Name	Age	Principal Occupation and Other Directorships
Edward F. Crawford (a)	67	Director, Chairman and Chief Executive Officer since 1992 and President from 1997 to 2003; Chairman, Crawford Group, Inc. (a management company for a group of manufacturing companies) since 1964; Director of Continental Global Group, Inc. Mr. M. Crawford is the son of Mr. E. Crawford.

Directors Continuing in Office with Term Expiring in 2009

Name	Age	Principal Occupation and Other Directorships
Matthew V. Crawford	37	Director since 1997; President and Chief Operating Officer of the Company since 2003; Senior Vice President from 2001 to 2003; Assistant Secretary and Corporate Counsel from February 1995 to 2001; President of Crawford Group, Inc. (a management company for a group of manufacturing companies) since 1995. Mr. E. Crawford is the father of Mr. M. Crawford.
Kevin R. Greene (b,d)	48	Director since 1998; Chairman and Chief Executive Officer of KR Group LLC (international investment banking, money management and consulting firm) since 1992; Managing Partner of Cru Capital Management LLC (money management company) since 2005; Managing Partner of James Alpha Management LLC (money management company) since 2005; Chairman and Chief Executive Officer of Capital Resource Holdings L.L.C. (pension consultant) from 1999 through 2004; formerly a management consultant with McKinsey & Company (consulting firm).
Ronna Romney (c,d)	63	Director since 2001; former political and news commentator for radio and television; author; U.S. Senate Candidate for Michigan 1996; former Chairwoman of the President s Commission for White House Fellowships; former Chairwoman of the President s Commission for White House Scholars; former Commissioner on the President s National Advisory Council on Adult Education; Lead Director and Chairwoman of the Corporate Governance and Nominating Committee of Molina Healthcare, Inc.

a Member, Executive Committee
b Member, Audit Committee
c Member, Compensation Committee

d Member, Nominating and Corporate Governance Committee

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PRINCIPAL SHAREHOLDERS

The following table sets forth certain information with respect to beneficial ownership of our Common Stock by: (i) each person (or group of affiliated persons) known to us to be the beneficial owner of more than five percent of our outstanding Common Stock; (ii) each director or director nominee; (iii) each executive officer named in the Summary Compensation Table on Page 15 of this proxy statement individually; and (iv) all directors and executive officers as a group. Unless otherwise indicated, the information is as of February 28, 2007, and the nature of beneficial ownership consists of sole voting and investment power.

Name of Beneficial Owner	Shares of Common Stock Currently Owned	Shares Acquirable Within 60 Days(1)	Percent of Class
Patrick V. Auletta	9,000		*
Edward F. Crawford	2,117,130(a)(b)	308,334	20.8
Matthew V. Crawford	1,146,701(b)(c)	283,334	12.3
Richard P. Elliott	12,500	6,667	*
Patrick W. Fogarty	32,360(d)	1,667	*
Kevin R. Greene	7,000	2,000	*
Dan T. Moore, III	8,000	9,500	*
Ronna Romney	15,200		*
Robert D. Vilsack	2,669	21,667	*
James W. Wert	103,000	44,500	1.3
FMR Corp.	1,020,736(e)		9.0
GAMCO Investors, Inc.	1,388,774(f)		12.2
Paulette R. Baum Revocable Living Trust u/a/d 7/21/98	611,900(g)		5.4
Private Management Group, Inc.	730,518(h)		6.4
Directors and executive officers as a group (10 persons)	3,356,459	677,669	33.5

* Less than one percent.

(1) Reflects the number of shares that could be purchased by exercise of options vested at February 28, 2007 or within 60 days thereafter.

(a) The total includes 1,957,824 shares over which Mr. E. Crawford has sole voting and investment power, 22,500 shares owned by L Accent de Provence of which Mr. E. Crawford is President and owner of 25% of its capital stock and over which Mr. E. Crawford shares voting and investment power, 17,000 shares owned by EFC Properties, Inc. of which Mr. E. Crawford is the President and has sole voting and investment power, and 9,500 shares owned by Mr. E. Crawford s wife as to which Mr. E. Crawford disclaims beneficial ownership. The total includes 13,205 shares held under the Individual Account Retirement Plan of Park-Ohio Industries, Inc. and Its Subsidiaries as of December 31, 2006. The address of Mr. E. Crawford is the business address of the company.

(b) Includes an aggregate of 97,101 shares over which Messrs. E. Crawford and M. Crawford have shared voting power and investment power, consisting of: 44,000 shares held by a charitable foundation; 11,700 shares owned by Crawford Container Company; and 41,401 shares owned by First Francis Company, Inc. These 97,101 shares are included in the beneficial ownership amounts reported for both Mr. E. Crawford and Mr. M. Crawford. The address of Mr. M. Crawford is the business address of the company.

(c) Total includes 1,049,600 shares over which Mr. M. Crawford has sole voting and investment power.

(d) Total includes 956 shares held under the Individual Account Retirement Plan of Park-Ohio Industries, Inc. and Its Subsidiaries as of December 31, 2006.

(e) Based on information set forth on Amendment No. 1 to Schedule 13G as filed with the SEC on February 14, 2007, FMR Corp., a parent holding company, as of December 31, 2006, through its subsidiaries, is the beneficial owner of 1,020,736 shares, with the sole power to dispose of or direct the disposition of the 1,020,736 shares owned by funds. Neither FMR Corp. nor Edward C. Johnson 3d, Chairman of FMR Corp., has the sole power to vote or direct the voting of the

shares owned directly by the Fidelity funds. These powers reside with the Boards of Trustees for the funds. FMR Corp. and its subsidiaries are located at 82 Devonshire Street, Boston, Massachusetts 02109.

(f) Based on information set forth on Amendment No. 17 to Schedule 13D as filed with the SEC on December 7, 2005. Includes 1,064,074 shares held by GAMCO Asset Management Inc., 321,000 shares held by Gabelli Funds, LLC, 700 shares held by Gabelli Foundation, Inc., and 3,000 shares held by MJG Associates Inc., as of December 2, 2005. GGCP, Inc. is the ultimate parent holding company for the above listed companies, and Mr. Mario J. Gabelli is the majority shareholder of GGCP, Inc. Each of the foregoing has the sole power to vote or direct the vote and sole power to dispose or direct the disposition of the reported shares, except that GAMCO Asset Management Inc. does not have the authority to vote 42,000 of the reported shares. The foregoing companies provide securities and investment related services and have their principal business office at One Corporate Center, Rye, New York 10580.

(g) Based on information set forth on Schedule 13G as filed with the SEC on February 28, 2007, Paulette R. Baum Revocable Living Trust u/a/d 7/21/98 is classified as an individual filer that, as of December 31, 2006, through John B. Baum, Trustee, has the sole power to vote or direct the vote and sole power to dispose or direct the disposition of 611,900 shares. Paulette R. Baum Revocable Living Trust u/a/d 7/21/98 is located at 30201 Orchard Lake Road, Suite 107, Farmington Hills, Michigan 48334.

(h) Based on information set forth on Amendment No. 2 to Schedule 13G as filed with the SEC on February 6, 2007, Private Management Group, Inc. is an investment adviser that, as of December 31, 2006, has the sole power to vote or direct the vote and sole power to dispose or direct the disposition of 730,518 shares. Private Management Group, Inc. is located at 20 Corporate Park, Suite 400, Irvine, California 92606.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires our officers and directors, and persons who beneficially own more than ten percent of our Common Stock, to file reports of ownership and changes in ownership of such securities with the SEC. Officers, directors and greater than ten percent beneficial owners are required by applicable regulations to furnish us with copies of all Section 16(a) forms they file.

Based upon our review of the copies of Section 16(a) forms received by us, and upon written representations from reporting persons concerning the necessity of filing a Form 5, we believe that, during 2006, all filing requirements applicable for reporting persons were met.

CERTAIN MATTERS PERTAINING TO THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Corporate Governance

The Board believes that there should be a substantial majority of independent directors on the Board. The Board also believes that it is useful and appropriate to have members of management, including the Chief Executive Officer and President, as directors. The current Board members include five independent directors (including all of the nominees).

Director Independence. Each of Messrs. Auletta, Greene, Moore and Wert and Ms. Romney is independent in accordance with the rules of the Nasdaq Stock Market. In addition, each of Messrs. Hatch and Selhorst, who retired effective May 2006, was independent under the rules of the Nasdaq Stock Market. The Nasdaq Stock Market independence definition includes a series of objective tests, such as that the director is not our employee and has not engaged in various types of business dealings with us. In addition, as further required by the Nasdaq Stock Market rules, the Board has made a subjective determination as to each independent director that no relationships exist that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, the directors reviewed and discussed information provided by the directors and the Company with regard to each director s business and personal activities as they may relate to the Company and management.

In addition, as required by the Nasdaq Stock Market rules, the members of the Audit Committee are each independent under special standards established by the SEC for members of audit committees. The Audit Committee also includes at least one independent member whom the Board has determined meets the qualifications of an audit committee financial expert in accordance with SEC rules. Patrick V. Auletta is the independent director who has been determined to be an audit committee financial expert. Shareholders should understand that this designation is a disclosure requirement of the SEC related to Mr. Auletta s experience and understanding with respect to certain accounting and auditing matters. The designation does not impose upon Mr. Auletta any duties, obligations or liability that are greater than are generally imposed on him as a member of the Audit Committee and the Board, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or the Board.

Code of Business Conduct and Ethics. All directors, officers and employees must act ethically at all times and in accordance with the policies comprising our Code of Business Conduct and Ethics. A copy of the code is available, without charge, upon written request to: Secretary, Park-Ohio Holdings Corp., 23000 Euclid Avenue, Cleveland, Ohio 44117. A copy of our Code is also available on our website at www.pkoh.com. We intend to disclose any amendment to, or waiver from, the Code of Business Conduct and Ethics by posting such amendment or waiver, as applicable, on our website.

Board of Directors and Committees

Board Committees and Charters. The Board currently has, and appoints the members of, Audit, Compensation, Nominating and Corporate Governance and Executive Committees. Each member of the Audit, Compensation and Nominating and Corporate Governance Committees is an independent director in accordance with the rules of the Nasdaq Stock Market. The Audit Committee has a written charter approved by the Board.

Audit Committee. The Audit Committee consists of Messrs. Auletta, Greene and Wert, with Mr. Auletta as its chairman. The Audit Committee assists the Board in its general oversight of our financial reporting, internal controls and audit functions, and is directly responsible for the appointment, retention, compensation and oversight of the work

of our independent auditors. In 2006, the Audit Committee held five meetings. The responsibilities and activities of the Audit Committee are described in greater detail in Audit Committee Report and the Audit Committee Charter. The Audit Committee Charter is available on our website at www.pkoh.com.

Compensation Committee. The Compensation Committee consists of Messrs. Wert and Moore and Ms. Romney, with Ms. Romney as its chairman. The Compensation Committee reviews and approves salaries, performance-based incentives and other matters relating to executive compensation, including reviewing and granting equity

awards to executive officers. As described in greater detail below under Compensation Discussion and Analysis, the Compensation Committee determines the compensation of our executive officers, including our Chief Executive Officer, or CEO, and directors. With respect to executive officers other than the CEO, the Compensation Committee takes into account the recommendations of the CEO when determining the various elements of their compensation, including the amount and form of such compensation. The Compensation Committee has the sole authority to retain and terminate compensation consultants to assist in the evaluation of executive compensation and the sole authority to approve the fees and other retention terms of any such consultants. During 2006, the Compensation Committee retained Watson Wyatt to assist in the evaluation of our executive compensation program, which evaluation included providing information to the Compensation Committee on trends in executive compensation and other market and peer group data.

The Compensation Committee also reviews and approves various other compensation policies and matters. The Compensation Committee held two meetings in 2006 and also acted by written consent. The Compensation Committee has not yet adopted a written charter.

Executive Committee. The Executive Committee consists of Messrs. Auletta, E. Crawford and Wert, with Mr. Wert as its chairman. The Executive Committee may exercise the authority of the Board between Board meetings, except to the extent that the Board has delegated authority to another committee or to other persons and except as limited by Ohio law and our Regulations. The Executive Committee held no meetings in 2006, but acted by written consent.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee consists of Messrs. Auletta, Greene, Moore, and Wert and Ms. Romney, with Mr. Wert as its chairman, and consists of all of our independent directors, in accordance with the rules of the Nasdaq Stock Market. The Nominating and Corporate Governance Committee makes recommendations to the Board regarding the size and composition of the Board. The Nominating and Corporate Governance Committee is responsible for reviewing with the Board from time to time the appropriate skills and characteristics required of Board members in the context of the current size and make-up of the Board. This assessment includes issues of diversity in numerous factors such as: age; understanding of and achievements in manufacturing, technology, finance and marketing; and international experience and culture. These factors, and any other qualifications considered useful by the Nominating and Corporate Governance Committee, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time. As a result, the priorities and emphasis of the Nominating and Corporate Governance Committee and of the Board may change from time to time to take into account changes in business and other trends and the portfolio of skills and experience of current and prospective Board members. Therefore, while focused on the achievement and the ability of potential candidates to make a positive contribution with respect to such factors, the Nominating and Corporate Governance Committee has not established any specific minimum criteria or qualifications that a nominee must possess. The Nominating and Corporate Governance Committee establishes procedures for the nomination process, recommends candidates for election to the Board and also nominates officers for election by the Board. The Nominating and Corporate Governance Committee has not yet adopted a written charter but has a resolution regarding the nomination process.

Consideration of new Board nominee candidates typically involves a series of internal discussions, review of information concerning candidates and interviews with selected candidates. In general, candidates for nomination to the Board are suggested by Board members or by employees. The Nominating and Corporate Governance Committee will consider candidates proposed by shareholders. The Nominating and Corporate Governance Committee evaluates candidates proposed by shareholders using the same criteria as for other candidates. Any shareholder nominations proposed for consideration by the Nominating and Corporate Governance Committee should include (1) complete information as to the identity and qualifications of the proposed nominee, including name, address, present and prior business and/or professional affiliations, education and experience and particular fields of expertise, (2) an indication of the nominee s consent to serve as a director if elected, and (3) the reasons why, in the opinion of the recommending

shareholder, the proposed nominee is qualified and suited to be a director, and should be addressed to our Secretary at 23000 Euclid Avenue, Cleveland, Ohio 44117.

The Nominating and Corporate Governance Committee reviews and reports to the Board on a periodic basis with regard to matters of corporate governance. The Nominating and Corporate Governance Committee also

reviews and assesses the effectiveness of the Board s Code of Business Conduct and Ethics and recommends to the Board proposed revisions to the Code. In addition, the Nominating and Corporate Governance Committee reviews shareholder proposals and makes recommendations to the Board for action on such proposals. Pursuant to the rules of the Nasdaq Stock Market, all of the members of the Nominating and Corporate Governance Committee met once without the presence of management directors and acted by written consent during 2006.

Attendance at Board, Committee and Annual Shareholders Meetings. The Board held six meetings in 2006. All directors are expected to attend each meeting of the Board and the committees on which he or she serves. In 2006, no director attended less than 75% of the meetings of the Board and the committees on which he or she served. Directors are expected to attend the Annual Meeting, and eight directors attended the 2006 annual meeting of shareholders.

Shareholder Communications

The Board believes that it is important for shareholders to have a process to send communications to the Board. Accordingly, shareholders who wish to communicate with the Board of Directors or a particular director may do so by sending a letter to our Secretary at 23000 Euclid Avenue, Cleveland, Ohio 44117. The mailing envelope must contain a clear notation indicating that the enclosed letter is a Shareholder-Board Communication or Shareholder-Director Communication. All such letters must identify the author as a shareholder and clearly state whether the intended recipients are all members of the Board or certain specified individual directors. The Secretary will make copies of all such letters and circulate them to the appropriate director or directors.

Company Affiliations with the Board of Directors and Nominees

The following affiliation exists between us and nominees or directors:

Mr. Auletta served as President of KeyBank National Association from 2001 to 2004 and is currently President Emeritus of KeyBank. We have a secured $230,000,000 revolving credit facility with J. P. Morgan Chase Bank, N.A. (successor by merger to Bank One, N.A.), as lead arranger and lender. KeyBank is a participant in this credit facility in the amount of approximately $38 million as syndication agent and lender. KeyBank received interest income and fee income from us during 2006. The credit facility was entered into in the ordinary course of business, was made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated parties and does not involve more than the normal risk of collectibility or present other unfavorable features.

In making the determination that Mr. Auletta is independent, the Board of Directors determined that the fact that Mr. Auletta serves as the President Emeritus of KeyBank does not create a material relationship or impair the independence of Mr. Auletta for the reasons set forth in the preceding paragraph and given Mr. Auletta s current role at KeyBank.

Compensation Committee Interlocks and Insider Participation

Members of the Compensation Committee during 2006 were Messrs. Moore and Wert and Ms. Romney. No current or former officer or employee of ours served on the Compensation Committee during 2006.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy and Objectives

Our compensation program is designed to recognize the level of responsibility of an executive within our company, taking into account the executive s role and expected leadership within our organization and to encourage decisions and actions that have a positive impact on our overall performance.

The Compensation Committee of the Board of Directors administers our compensation program. The Compensation Committee is responsible for reviewing and approving base salaries, bonuses and equity incentive awards for all executive officers. Typically our Chief Executive Officer, or CEO, makes compensation recommendations to the Compensation Committee with respect to decisions concerning other executive officers. The Compensation Committee makes its decisions with respect to our CEO in executive session.

Our compensation philosophy is based upon the following objectives:

To reinforce key business strategies and objectives.

To reward our executives for their outstanding performance and business results.

To emphasize the enhancement of shareholder value.

To value the executive s unique skills and competencies.

To attract, retain and motivate qualified executives.

To provide a competitive compensation structure.

Peer Group Analysis and Benchmarking

During 2006, the Compensation Committee engaged the services of Watson Wyatt, a worldwide executive compensation and benefits consulting firm, as consultants to help evaluate our executive compensation program and to help select appropriate market data for compensation and benchmarking. Some of the resources used for comparison were the WWDS Top Management Survey, Mercer Executive Compensation Survey, Watson Wyatt Proprietary Executive Survey and comparative executive compensation information from a peer group consisting of the following companies: AAR Corp., Applied Industrial Technologies Inc., Aviall Inc., Century Aluminum Co., Encore Wire Corp., Fairchild Corp., General Cable Corp., Kunan Corp., Lawson Products Inc., Lamson & Sessions Co., Mueller Industries Inc., Shiloh Industries Inc., Superior Essex Inc. and Wolverine Tube Inc. The peer group was established utilizing several factors including the industry, markets, revenue, market capitalization and profitability.

The Compensation Committee took Watson Wyatt s market survey and peer group data into consideration when making equity awards to our CEO and our President and Chief Operating Officer, or COO, in 2006. Generally, in making those awards, the Compensation Committee considered medians for total compensation from the market survey and peer group data for comparable positions. The Compensation Committee also considered the market survey and peer group data when determining the base salary, bonus and equity components of our other executive officers for 2007. However, actual compensation can vary widely, either above or below these medians, based on

company and individual performance, scope of responsibilities, competencies and experience.

Compensation Components

Our compensation program currently has three primary components consisting of a base salary, an annual cash bonus, whether discretionary or pursuant to our Annual Cash Bonus Plan, which we refer to as the Bonus Plan, and equity awards granted pursuant to our Amended and Restated 1998 Long-Term Incentive Plan, which we refer to as the 1998 Plan. In addition, we also offer our executive officers basic retirement savings opportunities, health and welfare benefits and perquisites that supplement the three primary components of compensation.

We view these various components of compensation as related but distinct. Although our Compensation Committee does review total compensation, we do not believe that significant compensation derived from one component of compensation should negate or reduce compensation from other components. The appropriate level for each compensation component is based in part, but not entirely, on our view of internal equity and consistency, and other considerations we deem relevant, such as rewarding extraordinary performance. Our Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid-out compensation, between cash and non-cash compensation or among different forms of non-cash compensation.

Base Salary

We pay base salaries to recognize each executive officer s unique value and skills, competencies and experience in light of the executive s position. Base salaries, including any annual or other adjustments, for our executive officers, other than our CEO, are determined after taking into account recommendations by our CEO. Base salaries for all executive officers are determined by the Compensation Committee after considering such factors as competitive industry salaries, a subjective assessment of the nature of the executive officer s position, the executive officer s unique value and historical contributions and the experience and length of the service of the executive officer. For 2006, the only significant increase in base salary for our executive officers was for our COO, whose base salary increased 27% to reflect an increase in the scope and influence of his position and responsibilities, his individual performance and external market conditions. Adjustments to base pay are generally considered during the first quarter of each year and, if made, are effective retroactively to the beginning of the year. For 2007, there were no significant increases in base salaries for our executive officers.

Annual Bonus

Annual bonuses are used to reward our executive officers for achieving key financial and operational objectives, to motivate certain desired individual behaviors and to reward superior individual achievements. Bonus awards for our executive officers, other than for our CEO, are determined by the Compensation Committee after taking into account recommendations by our CEO. The annual bonus awards, other than for our CEO, are fully discretionary and are based on subjective criteria in light of all relevant factors.

We have established the Bonus Plan, which was approved by our shareholders in 2006, for our CEO and any other executive officer selected by the Compensation Committee to participate in the Bonus Plan. The Bonus Plan includes a set of performance measures that can be used to establish the bonus award. Under the Bonus Plan, our CEO or any other selected executive officer is eligible to receive an annual cash bonus depending on the performance of our company against specific performance measures established by the Compensation Committee before the end of the first quarter of each year. For 2006, only our CEO participated in the Bonus Plan and the Compensation Committee selected consolidated adjusted net income as the performance measure for our CEO. For 2006, our CEO was entitled to a bonus award equal to 4% of consolidated adjusted net income. Under the Bonus Plan, the Compensation Committee is authorized to exercise negative discretion and reduce our CEO s award, but did not do so for 2006.

For 2007, the Compensation Committee has established that the performance measure for our CEO under the Bonus Plan will be 4% of our consolidated income before income taxes. The Compensation Committee believes income before income taxes is an appropriate measure of our core operating performance and directly links our CEO s annual bonus award to our profitability.

For 2006, our COO was eligible to receive a maximum bonus award of up to 100% of his annual base salary based upon achieving performance objectives. For 2006, these performance objectives related to our profitability, treasury operations, investor relations, strategic planning and corporate development. The achievement of theses objectives by

our COO was based on the subjective assessment of the Compensation Committee.

For our other named executive officers, the 2006 bonus awards were determined by the Compensation Committee, after considering recommendations from our CEO and after taking into account individual performance and our profitability. Information about bonuses paid to our executive officers is contained in the Summary Compensation Table.

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Equity Compensation

We use the grant of equity awards under our 1998 Plan to provide long-term incentive compensation opportunities, which align the executives interests with those of our shareholders, and to attract and retain executive officers.

Our Compensation Committee administers our 1998 Plan. Historically, the Compensation Committee has granted options and restricted shares under our 1998 Plan. Other than for grants of equity awards to our CEO, the Compensation Committee typically considers recommendations from our CEO when considering decisions regarding the grant of equity awards to executive officers. The Compensation Committee grants equity awards based on a number of criteria, including the relative rank of the executive officer and the executive s historical and ongoing contributions to our success based on subjective criteria. There is no set formula for the granting of equity awards to executive officers.

We do not have any program, plan or obligation that requires us to grant equity awards on specific dates. We have not made equity grants in connection with the release or withholding of material, non-public information. Options granted under our 1998 Plan have exercise prices equal to the closing price of our stock on the day of the grant.

In 2006, the Compensation Committee made awards of restricted shares to our CEO and our COO. The Compensation Committee considered the market survey and peer group data provided by Watson Wyatt in determining the value of the equity awards. The Compensation Committee determined the target value of each equity award should be near the median level for long-term equity compensation of our peer group. Information regarding these equity awards granted to our CEO and COO is contained in the 2006 Grants of Plan-Based Awards table. Information about outstanding equity awards granted to our executive officers is contained in the Outstanding Equity Awards at December 31, 2006 table.

Other Benefits

We also provide other executive benefits that we consider necessary in order to offer fully-competitive opportunities to attract and retain our executive officers. These benefits include life insurance, company cars or car allowances and club dues. Executive officers are eligible to participate in all of our employee benefit plans, such as the 401(k) retirement savings plan and medical, dental, group life, disability and accidental death and dismemberment insurance, in each case on the same basis as other employees.

Termination of Employment and Change of Control Arrangements

All of our executive officers are employees-at-will and, as such, do not have employment agreements with us. Therefore, we are not obligated to provide any post-employment compensation or benefits. However, upon a change of control, as defined in the 1998 Plan, all unvested stock option grants become fully exercisable and all outstanding restricted share grants fully vest.

Accounting and Tax Treatment

We account for equity compensation paid to our employees under the rules of Financial Accounting Standards Board Statement No. 123 (revised 2004), Share-Based Payment, or FAS 123R, which require us to estimate and record an expense over the service period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is accrued.

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which generally disallows a tax deduction to public corporations

for compensation over $1,000,000 paid for any fiscal year to a company s CEO and four other most highly-compensated executive officers as of the end of any fiscal year. However, the statute exempts qualifying performance-based compensation from the deduction limit if certain requirements are met.

The Compensation Committee believes that it is generally in our best interest to attempt to structure performance-based compensation, including annual bonuses, to executive officers who may be subject to Section 162(m) in a manner that satisfies the statute s requirements. However, the Compensation Committee also

recognizes the need to retain flexibility to make compensation decisions that may not meet Section 162(m) standards when necessary to enable us to meet our overall objectives, even if we may not deduct all of the compensation. Accordingly, the Compensation Committee has expressly reserved the authority to award non-deductible compensation in appropriate circumstances.

We are not obligated to offset any income taxes due on any compensation or benefits, including, as discussed below, income or excise taxes due on any income from accelerated vesting of outstanding equity grants. To the extent any such amounts are considered excess parachute payments under Section 280G of the Internal Revenue Code and thus not deductible by us, the Compensation Committee is aware of that possibility and has decided to accept the cost of that lost deduction. However, the Compensation Committee has not thought it necessary for us to take on the additional cost of reimbursing executives for any taxes generated by the vesting accelerations.

COMPENSATION COMMITTEE REPORT

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in our Annual Report on Form 10-K for the year ended December 31, 2006.

Ronna Romney, Chair
Dan T. Moore III
James W. Wert

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INFORMATION REGARDING CURRENT YEAR S COMPENSATION/GRANTS

The following table sets forth for fiscal year 2006 all compensation earned by the individuals who served as our CEO and Chief Financial Officer during the year, and by our three highest paid employees serving as other executive officers as of the end of 2006, whom we refer to collectively as our named executive officers, for services rendered.

Summary Compensation Table

Other comprehensive income, net of tax	52	101	43	154
Comprehensive earnings (loss)	$ (1,670)	$ 947	$ (1,808)	$ 1,988
Net earnings (loss)	$ (1,722)	$ 846	$ (1,851)	$ 1,834
Dividends and discount accretion on preferred stock	(283)	(281)	(566)	(581)
Earnings (loss) available to common shareholders	$ (2,005)	$ 565	$ (2,417)	$ 1,253
Earnings (loss) per common share-basic	$ (1.15)	$ 0.32	$ (1.39)	$ 0.72
Earnings (loss) per common share-diluted	$ (1.15)	$ 0.32	$ (1.39)	$ 0.72
Dividends declared per share-common stock	$	$	$	$ 0.01

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2011	2010
	(Dollars in thousands)	
Cash flows from operating activities:		
Net earnings (loss)	$ (1,851)	$ 1,834
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Provision for loan losses	4,674	883
Provision for losses on loans receivable held-for-sale	26	547
Provision for losses on REO	782	111
Depreciation	206	214
Net amortization of deferred loan origination (fees) costs	20	(6)
Net amortization of premiums on mortgage-backed securities	59	102
Stock-based compensation expense	45	80
Earnings on bank owned life insurance	(44)	(48)
Net losses on sales of REO	49	35
Net (gains) losses on sales of loans	(11)	136
Net change in:		
Accrued interest receivable	259	(98)
Deferred tax assets	(767)	(127)
Other assets	(1,543)	2,353
Other liabilities	790	(663)
Net cash provided by operating activities	2,694	5,353
Cash flows from investing activities:		
Net change in loans receivable	10,136	3,037
Proceeds from sales and principal repayments of loans receivable held-for-sale	14,243	2,864
Available-for-sale securities:		
Maturities, prepayments and calls	1,367	2,718
Held-to-maturity securities:		
Maturities, prepayments and calls	1,042	1,998
Proceeds from sales of REO	2,305	1,396
Investment in affordable housing limited partnership	(286)	(359)
Redemption (Purchase) of FHLB stock		(62)
Additions to office properties and equipment	(21)	(102)
Net cash provided by investing activities	28,786	11,490
Cash flows from financing activities:		
Net change in deposits	(36,074)	28,661
Proceeds from FHLB advances	7,000	
Repayments on FHLB advances	(7,000)	(3,600)
Net increase in other borrowings		5,000
Cash dividends paid		(412)
Reissuance of treasury stock	6	6
Net change in advance payments by borrowers for taxes and insurance	471	(178)

Net cash provided by (used in) financing activities		(35,597)		29,477
Net change in cash and cash equivalents		(4,117)		46,320
Cash and cash equivalents at beginning of period		21,978		7,440
Cash and cash equivalents at end of period	$	17,861	$	53,760
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	3,912	$	4,796
Cash paid for income taxes	$	865	$	
Supplemental disclosures of non-cash investing and financing activities:				
Transfers of loans receivable to REO	$	6,414	$	3,957
Transfers of loans receivable held-for-sale to REO	$	266	$	
Transfers of loans receivable from loans receivable, net to loans receivable held-for-sale	$		$	1,422

See accompanying notes to unaudited consolidated financial statements.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

June 30, 2011

NOTE (1) Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements include Broadway Financial Corporation (the Company) and its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the Bank). Also included in the unaudited consolidated financial statements is Broadway Service Corporation, a wholly owned subsidiary of the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for quarterly reports on Form 10-Q. These unaudited consolidated financial statements do not include all disclosures associated with the Company s consolidated annual financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2010 and, accordingly, should be read in conjunction with such audited consolidated financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Some items in the consolidated financial statements for the prior period were reclassified to conform to the current presentation.

NOTE (2) Recently Issued Accounting Pronouncements

In April 2011, the FASB issued ASU No. 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, updated to amend previous guidance with respect to troubled debt restructurings. This updated guidance is designed to assist creditors with determining whether or not a restructuring constitutes a troubled debt restructuring. In particular, additional guidance has been added to help creditors determine whether a concession has been granted and whether a debtor is experiencing financial difficulties. Both of these conditions are required to be met for a restructuring to constitute a troubled debt restructuring. The amendments in the update are effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 addresses convergence between GAAP and International Financial Reporting Standards (IFRS) requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying GAAP. Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity s net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. The amendments in ASU 2011-04 are effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The guidance in ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. The guidance in ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and should be applied retrospectively. Early adoption is permitted. Since the provisions of ASU 2011-05 are presentation related only, the Company does not expect the adoption of ASU 2011-04 to have a material effect on its consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

NOTE (3) Earnings Per Common Share

Basic earnings per common share is computed by dividing earnings available to common shareholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per common share is computed by dividing earnings available to common shareholders by the weighted average number of shares of common stock outstanding for the period, increased for the dilutive effect of common stock equivalents.

The following table shows how we computed basic and diluted earnings per common share for the three and six months ended June 30, 2011 and 2010.

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per share)			
Basic				
Net earnings (loss)	$ (1,722)	$ 846	$ (1,851)	$ 1,834
Less: Preferred stock dividends and accretion	(283)	(281)	(566)	(581)
Earnings (loss) available to common shareholders	$ (2,005)	$ 565	$ (2,417)	$ 1,253
Weighted average common shares outstanding	1,744,216	1,743,609	1,744,091	1,743,488
Basic earnings (loss) per common share	$ (1.15)	$ 0.32	$ (1.39)	$ 0.72
Diluted				
Net earnings (loss)	$ (1,722)	$ 846	$ (1,851)	$ 1,834
Less: Preferred stock dividends and accretion	(283)	(281)	(566)	(581)
Earnings (loss) available to common shareholders	$ (2,005)	$ 565	$ (2,417)	$ 1,253
Weighted average common shares outstanding	1,744,216	1,743,609	1,744,091	1,743,488
Add: dilutive effects of assumed exercises of stock options	N/A	900	N/A	3,485
Average shares and dilutive potential common shares	1,744,216	1,744,509	1,744,091	1,746,973
Diluted earnings (loss) per common share	$ (1.15)	$ 0.32	$ (1.39)	$ 0.72

Stock options for 227,075 shares of common stock were not considered in computing diluted earnings per common share for the three and six months ended June 30, 2011 and stock options for 237,547 and 212,700 shares of common stock were not considered in computing diluted earnings per common share for the three and six months ended June 30, 2010 because they were anti-dilutive.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

NOTE (4) Securities

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolios at June 30, 2011 and December 31, 2010 and the corresponding amounts of unrealized gains which are recognized in accumulated other comprehensive income (loss), for available-for-sale investment securities, were as follows:

	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available-for-sale				
Residential mortgage-backed	$ 8,662	$ 510	$	$ 9,172
Total available-for-sale	$ 8,662	$ 510	$	$ 9,172
Held-to-maturity				
Residential mortgage-backed	$ 10,692	$ 445	$	$ 11,137
U.S. Government and federal agency	1,000	89		1,089
Total held-to-maturity	$ 11,692	$ 534	$	$ 12,226

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available-for-sale				
Residential mortgage-backed	$ 10,085	$ 439	$	$ 10,524
Total available-for-sale	$ 10,085	$ 439	$	$ 10,524
Held-to-maturity				
Residential mortgage-backed	$ 11,737	$ 425	$	$ 12,162
U.S. Government and federal agency	1,000	99		1,099
Total held-to-maturity	$ 12,737	$ 524	$	$ 13,261

The amortized cost and fair value of the investment securities portfolios are shown by contractual maturity at June 30, 2011. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily residential mortgage-backed securities, are shown separately.

Maturity	Available-for-Sale Amortized Cost	Available-for-Sale Fair Value	Held-to-Maturity Amortized Cost	Held-to-Maturity Fair Value
	(In thousands)			
Within one year	$	$	$	$
One to five years			1,000	1,089
Five to ten years				
Beyond ten years				
Residential mortgage-backed	8,662	9,172	10,692	11,137
Total	$ 8,662	$ 9,172	$ 11,692	$ 12,226

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

Securities pledged at June 30, 2011 and December 31, 2010 had a carrying amount of $11.7 million and $12.7 million and were pledged to secure public deposits and FHLB advances. At June 30, 2011 and December 31, 2010, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity. There were no sales of securities during the six months ended June 30, 2011 and 2010.

There were no securities with unrealized losses at June 30, 2011 and December 31, 2010. We evaluate securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer s financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

NOTE (5) Loans Receivable Held-for-Sale, net

Loans receivable held-for-sale at June 30, 2011 and December 31, 2011 were as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Loans receivable, held for sale:		
Multi-family residential	$ 6,488	$ 16,217
Commercial real estate	2,068	5,067
Church	8,756	9,408
Valuation allowance for unrealized losses	(1,307)	(1,281)
Loans receivable, held for sale, net	$ 16,005	$ 29,411

Loans receivable held-for-sale, net, consisted of multi-family and commercial real estate loans originated for sale and multi-family loans transferred from our loan portfolio. Non-performing loans receivable held-for-sale included in loans receivable held-for-sale, net, totaled $6.0 million, net of charge-offs of $122 thousand and a $776 thousand valuation allowance, as of June 30, 2011 and totaled $5.1 million, net of charge-offs of $414 thousand and a $769 thousand valuation allowance, at December 31, 2010. Restructured loans receivable held-for-sale that have complied with the terms of their restructured agreements for a satisfactory period of time and certain performing loans receivable held-for-sale with delinquency or other weaknesses totaled $4.1 million, net of a $531 thousand valuation allowance, as of June 30, 2011 and totaled $8.0 million, net of a $512 thousand valuation allowance, as of December 31, 2010. A loan receivable held-for-sale secured by a church building, which had a carrying amount of $266 thousand, net of charge-off of $292 thousand, was transferred to REO during the six months ended June 30, 2011.

We recorded a lower of cost or market recovery on non-performing loans receivable held-for-sale of $35 thousand for the six months ended June 30, 2011. Net lower of cost or market write-downs on non-performing loans receivable held-for-sale totaled $131 thousand for the six months ended June 30, 2010. During the six months ended June 30, 2011 and 2010, we increased our valuation allowance by $61 thousand and $416 thousand, respectively, on some of our loans held for sale that are still considered performing loans.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

NOTE (6) Loans Receivable and Allowance for Loan Losses

Loans at June 30, 2011 and December 31, 2010 were as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Loans receivable, net:		
One to four units	$ 81,022	$ 82,764
Five or more units	122,074	128,534
Commercial real estate	66,155	72,770
Church	95,050	97,634
Construction	4,271	5,421
Commercial:		
Sports	5,698	5,768
Other	6,370	6,410
Consumer:		
Loan on savings	1,006	3,259
Other	13	29
Total gross loans receivable	381,659	402,589
Less:		
Loans in process	119	371
Net deferred loan fees (costs)	(881)	(889)
Unamortized discounts	32	33
Allowance for loan losses	22,245	20,458
Loans receivable, net	$ 360,144	$ 382,616

The activity in the allowance for loan losses by segment of loans for the three and six months ended June 30, 2011 was as follows:

	For the three months ended June 30, 2011							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
				(In thousands)				
Beginning balance	$ 3,977	$ 2,622	$ 3,530	$ 7,387	$ 54	$ 1,598	$ 1,823	$ 20,991
Provision for loan losses	319	419	2,723	(46)	14	(60)	65	3,434
Recoveries							6	6
Loans charged off	(67)	(149)		(144)			(1,826)	(2,186)
Ending balance	$ 4,229	$ 2,892	$ 6,253	$ 7,197	$ 68	$ 1,538	$ 68	$ 22,245

	For the six months ended June 30, 2011							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Beginning balance	$ 4,579	$ 2,469	$ 3,493	$ 6,909	$ 74	$ 1,300	$ 1,634	$ 20,458
Provision for loan losses	(245)	572	3,369	477	(6)	238	269	4,674
Recoveries							8	8
Loans charged off	(105)	(149)	(609)	(189)			(1,843)	(2,895)
Ending balance	$ 4,229	$ 2,892	$ 6,253	$ 7,197	$ 68	$ 1,538	$ 68	$ 22,245

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

The activity in the allowance for loan losses for the three and six months ended June 30, 2010 was as follows:

	For the three months ended June 30, 2010	For the six months ended June 30, 2010
	(In thousands)	
Beginning balance	$ 20,110	$ 20,460
Provision for loan losses	309	883
Recoveries		
Loans charged off	(1,957)	(2,881)
Ending balance	$ 18,462	$ 18,462

The allowance for loan losses is comprised of specific loss allowances for impaired loans and general loan loss allowances based on quantitative and qualitative analyses.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by segment of loans and based on impairment method as of June 30, 2011 and December 31, 2010:

	June 30, 2011							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 871	$ 183	$ 3,400	$ 3,127	$	$ 1,210	$	$ 8,791
Collectively evaluated for impairment	3,358	2,709	2,853	4,070	68	328	68	13,454
Total ending allowance balance	$ 4,229	$ 2,892	$ 6,253	$ 7,197	$ 68	$ 1,538	$ 68	$ 22,245
Loans:								
Loans individually evaluated for impairment	$ 10,492	$ 3,067	$ 11,925	$ 30,850	$ 317	$ 3,983	$	$ 60,634
Loans collectively evaluated for impairment	70,530	119,007	54,230	64,200	3,954	8,085	1,019	321,025
Total ending loans balance	$ 81,022	$ 122,074	$ 66,155	$ 95,050	$ 4,271	$ 12,068	$ 1,019	$ 381,659

December 31, 2010

	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
				(In thousands)				
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 423	$ 69	$ 935	$ 2,118	$	$ 942	$ 1,541	$ 6,028
Collectively evaluated for impairment	4,156	2,400	2,558	4,791	74	358	93	14,430
Total ending allowance balance	$ 4,579	$ 2,469	$ 3,493	$ 6,909	$ 74	$ 1,300	$ 1,634	$ 20,458
Loans:								
Loans individually evaluated for impairment	$ 9,962	$ 2,260	$ 13,206	$ 26,251	$ 320	$ 3,768	$ 2,265	$ 58,032
Loans collectively evaluated for impairment	72,802	126,274	59,564	71,383	5,101	8,410	1,023	344,557
Total ending loans balance	$ 82,764	$ 128,534	$ 72,770	$ 97,634	$ 5,421	$ 12,178	$ 3,288	$ 402,589

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

Impaired loans were as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Impaired loans with no allocated allowance:		
Without charge-off	$ 20,873	$ 20,767
With charge-off	7,087	5,424
Impaired loans with allocated allowance:		
Without charge-off	32,095	29,532
With charge-off	579	2,309
Total	$ 60,634	$ 58,032
Amount of the allowance for loan losses allocated	$ 8,791	$ 6,028

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2011 and December 31, 2010:

	June 30, 2011			December 31, 2010		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(In thousands)					
With no related allowance recorded:						
One to four units	$ 6,664	$ 5,330	$	$ 7,953	$ 5,991	$
Five or more units	2,142	1,974		600	586	
Commercial real estate	5,795	5,156		8,409	8,133	
Church	15,652	15,183		11,782	11,161	
Construction	317	317		320	320	
With an allowance recorded:						
One to four units	5,338	5,162	871	4,129	3,971	423
Five or more units	1,088	1,093	183	1,674	1,674	69
Commercial real estate	6,769	6,769	3,400	5,072	5,073	935
Church	15,766	15,667	3,127	15,183	15,090	2,118
Commercial:						
Sports	4,000	3,698	925	4,000	3,768	942
Other	285	285	285			
Consumer:						
Loan on savings				2,249	2,249	1,525
Other				16	16	16
Total	$ 63,816	$ 60,634	$ 8,791	$ 61,387	$ 58,032	$ 6,028

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

The following table presents the average recorded investment, interest income recognized and cash basis interest income related to our impaired loans by segment and class for the six months ended June 30, 2011.

	For the six months ended June 30, 2011		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
		(In thousands)	
With no related allowance recorded:			
One to four units	$ 5,767	$ 25	$ 25
Five or more units	1,739	13	13
Commercial real estate	8,369	37	36
Church	14,481	98	92
Construction	319		
With an allowance recorded:			
One to four units	3,860	113	116
Five or more units	808		
Commercial real estate	4,268	57	57
Church	14,712	312	320
Commercial:			
Sports	3,728		
Other	247		
Consumer:			
Loan on savings	1,479		
Total	$ 59,777	$ 655	$ 659

	For the six months ended June 30, 2010 (In thousands)
Average recorded investment in impaired loans	$ 48,678
Interest income recognized	740
Cash basis interest income	555

Interest income recognized during impairment represents interest income earned on accruing impaired loans. Cash-basis interest income recognized represents cash received for interest payments on performing TDRs.

The following table presents the recorded investment in nonaccrual loans by class of loans:

	June 30, 2011	December 31, 2010
	(In thousands)	

Loans receivable, held for sale:		
Five or more units	$ 1,574	$ 385
Church	5,190	5,533
Loans receivable, net:		
One to four-units	5,824	6,227
Five or more units	2,675	1,865
Commercial real estate	9,061	10,321
Church	20,132	12,748
Construction	317	320
Commercial:		
Sports	3,698	3,768
Other	285	
Consumer:		
Loan on Savings		2,249
Other		16
Total nonaccrual loans	$ 48,756	$ 43,432

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

As of June 30, 2011, a commercial loan for $569 thousand was more than 90 days past due and was accruing interest. The loan has matured and is currently being modified but since the loan has always been current with monthly payments, the loan remained on accruing status. There were no loans 90 days or more delinquent that were accruing interest as of December 31, 2010.

The following table presents the aging of the recorded investment in past due loans, including loans held for sale, as of June 30, 2011 and December 31, 2010 by class of loans:

	June 30, 2011				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Not Past Due
	(In thousands)				
One to four units	$ 5,795	$	$ 5,824	$ 11,619	$ 69,403
Five or more units	251	769	4,249	5,269	123,293
Commercial real estate	733	1,424	9,061	11,218	57,005
Church	4,895	1,851	25,322	32,068	71,738
Construction		120	317	437	3,834
Commercial:					
Sports			3,698	3,698	2,000
Other	99		854	953	5,417
Consumer:					
Loan on savings					1,006
Other					13
Total	$ 11,773	$ 4,164	$ 49,325	$ 65,262	$ 333,709

	December 31,2010				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Not Past Due
	(In thousands)				
One to four units	$ 2,716	$ 71	$ 6,227	$ 9,014	$ 73,750
Five or more units	2,014	1,068	2,250	5,332	139,419
Commercial real estate	769	1,287	10,321	12,377	65,460
Church	12,914	5,230	18,281	36,425	70,617
Construction	898		320	1,218	4,203
Commercial:					
Sports			3,768	3,768	2,000
Other	325			325	6,085
Consumer:					
Loan on savings			2,249	2,249	1,010
Other			16	16	13

Total	$ 19,636	$ 7,656	$ 43,432	$ 70,724	$ 362,557

At June 30, 2011, loans classified as a troubled debt restructurings (TDR) totaled $36.5 million, of which $15.9 million were included in nonaccrual loans and $20.6 million were on accrual status as the loans have complied with the terms of their restructured agreements for a satisfactory period of time. At December 31, 2010, loans classified as a TDR totaled $37.1 million, of which $14.6 million were included in nonaccrual loans and $22.5 million were on accrual status as the loans have complied with the terms of their restructured agreements for a satisfactory period of time. The Company has specific allowances of $1.7 million and $1.6 million allocated to performing TDRs as of June 30, 2011 and December 31, 2010. As of June 30, 2011 and December 31, 2010, we did not have any outstanding commitments to extend additional funds to these borrowers.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed at least on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss. Loans classified as loss are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans as of June 30, 2011 and December 31, 2010 is as follows:

	As of June 30, 2011				
	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)				
One to four units	$ 69,883	$ 3,220	$ 7,919	$	$
Five or more units	114,116	3,541	4,368		49
Commercial real estate	43,321	4,923	17,826	85	
Church	39,488	12,457	42,136	370	599
Construction	1,046	2,908	317		
Commercial:					
Sports		2,000	3,698		
Other	856	5,049	465		
Consumer:					
Loan on savings	1,006				
Other	13				
Total	$ 269,729	$ 34,098	$ 76,729	$ 455	$ 648

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

	As of December 31, 2010				
	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)				
One to four units	$ 71,846	$ 2,440	$ 8,478	$	$
Five or more units	118,490	6,412	3,632		
Commercial real estate	46,692	5,281	20,797		
Church	42,931	14,229	40,204	270	
Construction	4,203	320	898		
Commercial:					
Sports		2,000	3,768		
Other	925	4,870	615		
Consumer:					
Loan on savings	1,010		2,249		
Other	13				16
Total	$ 286,110	$ 35,552	$ 80,641	$ 270	$ 16

NOTE (7) Junior Subordinated Debentures, Other Borrowings and Management s Capital Plan

On March 17, 2004, the Company issued $6.0 million of Floating Rate Junior Subordinated Debentures in a private placement. The debentures mature in 10 years and interest is payable quarterly at a rate per annum equal to the 3-month LIBOR plus 2.54%. The interest rate is determined as of each March 17, June 17, September 17, and December 17, and was 2.79% at June 30, 2011. The Company stopped paying interest on the debentures and the senior line of credit discussed below in September 2010. As disclosed previously, the Company is not permitted to make payments on any debts without prior notice to and receipt of written notice of non-objection from the Office of Thrift Supervision (OTS) Regional Director. In addition, under the terms of the subordinated debentures, the Company is not allowed to make payments on the subordinated debentures if the Company is in default on any of its senior indebtedness, which term includes the senior line of credit described below.

On February 28, 2010, the Company borrowed an aggregate of $5.0 million under its $5.0 million line of credit with another financial institution, and invested all of the proceeds in the equity capital of the Bank. The interest rate on the line of credit adjusts annually, subject to a minimum of 6.00% and increases by an additional 5% in the event of default. Borrowings under this line of credit are secured by the Company s assets. The full amount of this borrowing became due and payable on July 31, 2010. This senior line of credit has not been repaid and the Company is now in default under the line of credit agreement. On April 7, 2011, the lender agreed to forbear from exercising its rights (other than increasing the interest rate by the default rate margin) pursuant to the line of credit agreement until January 1, 2012 subject to the following conditions:

The Company shall make a forbearance payment in the amount of $25,000 to the lender no later than July 31, 2011 provided that the Company is able to obtain the necessary approval to make such payment from the OTS or its successors, and in the event the Company is unable to obtain such approval by said date, the Company shall make such payment as soon as permitted thereafter. The Company has not received the required regulatory approval for such payment to date.

The Company shall use its best efforts to continue to attempt to raise a minimum of $5.0 million in private placements under the Company s Recapitalization Plan as discussed below.

The Bank shall not experience anything that would constitute an Event of Default, or be placed into receivership by the FDIC.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

The Company is pursuing a comprehensive Recapitalization Plan to improve the Company s capital structure. To date, the Company has obtained the written consent of the U.S. Treasury to exchange the Company s Series D and E Fixed Rate Cumulative Perpetual Preferred Stock for common stock at a discount of 50% of the liquidation amount, plus an undiscounted exchange of the accumulated but unpaid dividends on such preferred stock for common stock. In addition, the Company is in negotiations with the holders of Series A and Series B Perpetual Preferred Stock and Series C Noncumulative Perpetual Convertible Preferred Stock to exchange their holdings for common stock at a discount of 50% of the liquidation amount. The Company is also in negotiations with the lender to exchange a portion of the Company s senior line of credit, which is currently in default, for common stock at 100% of the face amount to be exchanged and to forgive the accrued interest on the entire amount of the line of credit to the date of the exchange.

The Company plans to concurrently complete private placements or other sales of the Company s common stock aggregating $5 million or more in gross proceeds. The Company anticipates that these transactions would, if completed, result in the issuance of approximately 7.5 million new shares of the Company s common stock, which would constitute approximately 80% of the pro forma outstanding shares of the Company s common stock. There can be no assurance that management s capital plan will be achieved.

NOTE (8) Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (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. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for 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; or 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 the fair value of each type of financial instrument:

The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used 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 (Level 2 inputs).

The fair value of non-performing loans receivable held-for-sale is generally based upon the fair value of the collateral which is obtained from recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Impaired loans, other than performing TDRs, are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair values are estimated through current appraisals, broker opinions or automated valuation models and adjusted as necessary, by management, to reflect current market conditions and, as such, are classified as Level 3.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

Nonrecurring adjustments to certain commercial and residential real estate properties classified as real estate owned (REO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets Measured on a Recurring Basis

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

		Fair Value Measurements at June 30, 2011 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets:				
Securities available-for-sale - residential mortgage-backed	$ 9,172	$	$ 9,172	$

		Fair Value Measurements at December 31, 2010 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets:				
Securities available-for-sale - residential mortgage-backed	$ 10,524	$	$ 10,524	$

Assets Measured on a Non-Recurring Basis

The following table provides information regarding the carrying values of our assets measured at fair value on a non-recurring basis at the dates indicated. The fair value measurement for all of these assets falls within Level 3 of the fair value hierarchy.

	Carrying Value at	
	June 30, 2011	December 31, 2010
	(In thousands)	
Assets:		
Non-performing loans receivable held-for-sale, net:		

Five or more units	$ 1,548	$ 366
Church	4,441	4,783
Impaired loans carried at fair value of collateral:		
One to four units	2,957	3,775
Five or more units	1,940	1,606
Commercial real estate	2,193	2,542
Church	8,906	5,591
Commercial	2,773	2,826
Consumer		749
Real estate owned:		
One to four units	1,269	1,086
Five or more units	279	260
Commercial real estate	3,943	568
Church	1,199	1,122

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

The following table provides information regarding our assets measured at fair value on a non-recurring basis at June 30, 2011, and the losses recognized on these assets for the six months ended June 30, 2011.

	Principal Amount at June 30, 2011	Valuation Allowance at June 30, 2011	Losses for the six months ended June 30, 2011
		(In thousands)	
Non-performing loans receivable held-for-sale, net (1)	$ 6,764	$ 776	$
Impaired loans carried at fair value of collateral (2)	26,320	7,551	5,060
Real estate owned (3)	6,920	230	782
Total	$ 40,004	$ 8,557	$ 5,842

(1) Losses are charged to provision for losses on loans receivable held-for-sale.

(2) Losses are charged against the allowance for loan losses. Includes $7.1 million of loans that were carried at cost as the fair value of the collateral on these loans exceeded the book value as a result of charge-offs.

(3) Losses are charged against the allowance for loan losses in the case of a write-down upon the transfer of a loan to REO. Losses subsequent to the transfer of a loan to REO are charged to provision for losses on REO.

The following table provides information regarding our assets measured at fair value on a non-recurring basis at December 31, 2010, and the losses recognized on these assets for the year ended December 31, 2010.

	Principal Amount at December 31, 2010	Valuation Allowance at December 31, 2010	Losses for the year ended December 31, 2010
		(In thousands)	
Non-performing loans receivable held-for-sale, net (1)	$ 5,918	$ 769	$ 902
Impaired loans carried at fair value of collateral (2)	21,509	4,420	4,829
Real estate owned (3)	3,090	54	1,102
Total	$ 30,517	$ 5,243	$ 6,833

(1) Losses are charged to provision for losses on loans receivable held-for-sale.

(2) Losses are charged against the allowance for loan losses. Includes $5.4 million of loans that were carried at cost as the fair value of the collateral on these loans exceeded the book value as a result of charge-offs.

(3) Losses are charged against the allowance for loan losses in the case of a write-down upon the transfer of a loan to REO. Losses subsequent to the transfer of a loan to REO are charged to provision for losses on REO.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2011

Fair Values of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at June 30, 2011 and December 31, 2010 were as follows:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 17,861	$ 17,861	$ 21,978	$ 21,978
Securities available-for-sale	9,172	9,172	10,524	10,524
Securities held-to-maturity	11,692	12,226	12,737	13,261
Loans receivable held for sale, net	16,005	16,005	29,411	29,411
Loans receivable, net	360,144	360,871	382,616	384,274
Federal Home Loan Bank stock	4,089	N/A	4,089	N/A
Accrued interest receivable	1,957	1,957	2,216	2,216
Financial Liabilities:				
Deposits	$ (312,371)	$ (311,113)	$ (348,445)	$ (347,373)
Federal Home Loan Bank advances	(87,000)	(91,906)	(87,000)	(91,615)
Junior subordinated debentures	(6,000)	(4,974)	(6,000)	(4,609)
Other borrowings	(5,000)	(4,979)	(5,000)	(4,979)
Advance payments by borrowers for taxes and insurance	(743)	(743)	(272)	(272)
Accrued interest payable	(915)	(915)	(550)	(550)

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short term debt, advance payments by borrowers for taxes and insurance, and variable rate loans, deposits and borrowings that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans and deposits and for variable rate loans and deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk without consideration of widening credit spreads due to market illiquidity. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair values of off-balance-sheet items are not considered material (or are based on the current fees or cost that would be charged to enter into or terminate such arrangements) and, as such, they are not presented herein.

NOTE (9) Stock-based Compensation

In 2008, we adopted the 2008 Long-Term Incentive Plan (2008 LTIP), which is shareholder approved. The 2008 LTIP replaced the Company s 1996 Long-Term Incentive Plan (1996 LTIP) and 1996 Stock Option Plan (Stock Option Plan), which have expired and are no longer effective except as to outstanding awards. The 2008 LTIP permits the grant of non-qualified and incentive stock options, stock appreciation rights, full value awards and cash incentive awards to the Company s non-employee directors and certain officers and employees for up to 351,718 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of the Company s common stock at the date of grant; those option awards have vesting periods ranging from immediate vesting to 5 years and have 10-year contractual terms. The Company has a policy of using shares held as treasury stock to satisfy share option exercises. Currently, the Company has a sufficient number of treasury shares to satisfy expected share option exercises.

There were no options granted during the first six months of 2011. The Company recorded $27 thousand of stock-based compensation expense, net of tax, during the first six months of 2011 compared to $48 thousand for the first six months of 2010.

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NOTE (10) Regulatory Matters

The Bank is subject to regulatory capital requirements now administered by the Office of the Comptroller of the Currency, or OCC, which is the statutory successor under the Dodd-Frank Act to the former Office of Thrift Supervision, or OTS. The capital requirements, which remain the same as when administered by the OTS, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the OCC. Failure to meet capital requirements can result in regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

The Company and the Bank have consented to the issuance to them of cease and desist orders by the OTS effective September 9, 2010 requiring, among other things, that the Company and the Bank take remedial actions to improve the Bank s loan underwriting and internal asset review procedures, to reduce the amount of its non-performing assets and to improve other aspects of the Bank s business, as well as the Company s management of its business and the oversight of the Company s business by the Board. The cease and desist orders require the Bank to attain, and thereafter maintain, a Tier 1 (Core) Capital to Adjusted Total Assets ratio of at least 8% and a Total Risk-Based Capital to Risk-Weighted Assets ratio of at least 12%, both of which ratios are greater than the respective 6% and 10% levels for such ratios that are generally required under OTS (now OCC) regulations. The cease and desist orders also prohibit the Bank from paying dividends to the Company, and prohibit the Company from paying dividends to its stockholders, without the prior written approval of the OCC. In addition, the Company is not permitted to incur, issue, renew, repurchase, make payments on or increase any debt or redeem any capital stock without prior notice to and receipt of written notice of non-objection from the OCC.

We have met the minimums required to be well capitalized at June 30, 2011 and December 31, 2010 based on the prompt corrective action regulations, however we cannot be considered well capitalized while under the cease and desist order.

Actual and normally required capital amounts and ratios at June 30, 2011 and December 31, 2010, together with the higher capital requirements that the Bank is required to meet under the cease and desist order applicable to it, are presented below.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations		Capital Requirements under Cease and Desist Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratios	Amount	Ratios
	(Dollars in thousands)							
June 30, 2011:								
Tangible Capital to adjusted total assets	$ 39,381	8.87%	$ 6,662	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 39,381	8.87%	$ 17,765	4.00%	$ 22,206	5.00%	$ 35,529	8.00%
Tier 1(Core) Capital to risk weighted assets	$ 39,381	11.94%	N/A	N/A	$ 19,785	6.00%	N/A	N/A
Total Capital to risk weighted assets	$ 43,627	13.23%	$ 26,379	8.00%	$ 32,974	10.00%	$ 39,569	12.00%
December 31, 2010:								
Tangible Capital to adjusted total assets	$ 42,630	8.82%	$ 7,252	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 42,630	8.82%	$ 19,338	4.00%	$ 24,172	5.00%	$ 38,676	8.00%
Tier 1(Core) Capital to risk weighted assets	$ 42,630	11.76%	N/A	N/A	$ 21,754	6.00%	N/A	N/A
Total Capital to risk weighted assets	$ 47,299	13.05%	$ 29,006	8.00%	$ 36,257	10.00%	$ 43,508	12.00%

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Part I Item 1, Financial Statements, of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2010.

Overview

Total assets decreased during the first six months of 2011 primarily due to a decrease in our loan portfolio. The decline in assets reflected the strategy that we have been implementing since the second quarter of 2010 to reduce and resolve non-performing assets and to slow down asset growth, in our efforts to maintain our capital ratios above the required thresholds. Total deposits decreased during the first six months of 2011, as we continued to allow maturing certificates of deposit and brokered deposits, including deposits obtained through the CDARS reciprocal referral system, to run off as total assets declined.

Our net loss for the three and six months ended June 30, 2011 were ($1.7) million and ($1.9) million, respectively, compared to net earnings of $846 thousand and $1.8 million, respectively, for the same period a year ago, representing a decrease in net earnings of $2.6 million and $3.7 million, respectively. The decrease in net earnings was primarily due to higher provision for loan losses and lower net interest income for the three and six months ended June 30, 2011.

The annualized returns on average equity for the three and six months ended June 30, 2011 were (21.41%) and (11.32%), compared to 10.28% and 11.29% for the three and six months ended June 30, 2010. The annualized returns on average assets for the three and six months ended June 30, 2011 were (1.48%) and (0.78%), compared to 0.62% and 0.69% for the three and six months June 30, 2010. The efficiency ratios for the three and six months ended June 30, 2011 were 73.68% and 74.40%, compared to 60.63% and 59.68% for the comparable periods in 2010.

Results of Operations

Net Earnings

Net loss for the second quarter of 2011 was ($1.7) million, or ($1.15) per diluted common share, compared to net earnings of $846 thousand, or $0.32 per diluted common share, for the second quarter of 2010. The net loss for the second quarter of 2011 was primarily due to higher provision for loan losses and lower net interest income.

For the six months ended June 30, 2011, net loss totaled ($1.9) million, or ($1.39) per diluted common share, compared to net earnings of $1.8 million, or $0.72 per diluted common share, for the same period in 2010.

Net Interest Income

For the quarter ended June 30, 2011, our net interest income before provision for loan losses was $4.4 million, which represented a decrease of $903 thousand, or 17%, from the second quarter of 2011. The decrease in net interest income was primarily attributable to a decrease in average interest-earning assets, combined with a decrease in net interest margin. The decline in our net interest margin primarily reflected elevated levels of non-performing assets.

Average interest-earning assets for the second quarter of 2011 decreased to $459.7 million, down $78.5 million from the second quarter of 2010. The decrease in average interest-earning assets resulted in a $1.0 million reduction in interest income. Additionally, the annualized yield on our average interest-earning assets decreased 11 basis points to 5.64% for the second quarter of 2011, compared to the annualized yield of 5.75% for the same period a year ago. The 11 basis point decline in the annualized yield on our average interest-earning assets resulted in a decrease of $244 thousand in interest income. Higher levels of non-performing assets, primarily non-performing loans and REOs, contributed to the decline in the annualized yield on our interest-earning assets.

Average interest-bearing liabilities for the second quarter of 2011 decreased to $429.3 million, down $75.7 million from the second quarter of 2010. The decrease in average interest-bearing liabilities resulted in a $353 thousand reduction in interest expense. The annualized cost of our average interest-bearing liabilities decreased 1 basis point to 1.91% for the second quarter of 2011 from the annualized cost of 1.92% for the same period a year ago, and resulted in a decrease of $18 thousand in interest expense.

For the six months ended June 30, 2011, net interest income before provision for loan losses totaled $8.8 million, down $2.0 million, or 19%, from $10.8 million of net interest income before provision for loan losses for the same period a year ago. The $2.0 million decrease in net interest income primarily resulted from a $59.2 million decrease in average interest-earning assets and a 35 basis point decrease in net interest margin.

Provision and Allowance for Loan Losses

We record a provision for loan losses as a charge to earnings when necessary in order to maintain the allowance for loan losses at a level sufficient, in management s judgment, to absorb losses inherent in the loan portfolio. At least quarterly, we conduct an assessment of the overall quality of the loan portfolio and general economic trends in the local market. The determination of the appropriate level for the allowance is based on that review, considering such factors as historical loss experience for each type of loan, the size and composition of our loan portfolio, the levels and composition of our loan delinquencies, non-performing loans and net loan charge-offs, the value of underlying collateral on problem loans, regulatory policies, general economic conditions, and other factors related to the collectability of loans in the portfolio.

The provision for loan losses for the second quarter of 2011 totaled $3.4 million compared to $309 thousand for the same period a year ago. The $3.1 million increase in the provision for loan losses from the second quarter of 2010 to the second quarter of 2011 primarily reflected the increase in specific valuation allowance on impaired loans, which was partially offset by the decrease in the general valuation allowance due to the reduction in our gross loan portfolio. During the second quarter of 2011, we recorded a $3.0 million specific loss allocation on a commercial real estate loan. The Bank decided on the specific loss allocation due to insufficient cash flow from the property to service the debt, a decline in real estate values resulting in the loan being substantially under collateralized and deteriorating borrower financial capacity to repay the loan from personal reserves.

For the six months ended June 30, 2011, the provision for loan losses totaled $4.7 million compared to $883 thousand of provisions for the same period a year-ago. The increase in loan loss provision was primarily due to the $3.0 million specific loss allocation on a commercial real estate loan (as discussed above), higher levels of non-performing loans and classified loans, which were partially offset by the $59.4 million decline in our loan portfolio as compared to the same period in 2010. During the six months ended June 30, 2011, the dollar amount and number of our classified loans and delinquent loans declined from the levels at December 31, 2010.

Net loan charge-offs during the first six months of 2011 were $2.9 million, or 1.38% of average loans on an annualized basis, compared to $2.9 million, or 1.22% during the first six months of 2010. Consumer loans represented 63% of the charge-offs during the first six months of 2011, primarily because of one write-off related to the settlement of litigation concerning a consumer loan secured by a deposit account. We believe that settling this litigation, which was initiated in 2008, was the best course of action for our shareholders because the settlement eliminates any uncertainty regarding the matter and avoids any further drain on our management s time and resources. As of June 30, 2011, the consumer loan and the deposit account securing the loan have been closed and no additional losses are expected to be incurred on this matter. Commercial real estate loans represented 21% of charge-offs while church, multi-family and one-to-four family residential real estate loans, combined, represented 16% of charge-offs during the first six months of 2011. Of the $2.9 million of loan charge-offs during 2011, $2.2 million were specifically reserved for at year-end 2010 and $716 thousand were specifically reserved for during 2011.

At June 30, 2011 our allowance for loan losses was $22.2 million, or 5.83% of our gross loans, compared to $20.5 million, or 5.08% of our gross loans, at year-end 2010. The ratio of the allowance for loan losses to NPLs, excluding loans held for sale, decreased to 52.27% at June 30, 2011, compared to 54.53% at year-end 2010. Our coverage ratio (general allowance as a percentage of total non-impaired loans) was 4.19% as of June 30, 2011 and December 31, 2010. Our allowances for losses after considering reserves for loans held for sale and REO totaled $23.8 million at June 30, 2011, compared to $21.8 million at year-end 2010.

Management believes that the allowance for loan losses is adequate to cover probable incurred losses in the loan portfolio as of June 30, 2011, but there can be no assurance that actual losses will not exceed the estimated amounts. In

addition, the OTS and the FDIC periodically review the allowance for loan losses as an integral part of their examination process. These agencies may require an increase in the allowance for loan losses based on their judgments of the information available to them at the time of their examinations.

Non-interest Income

Non-interest income for the quarter ended June 30, 2011 totaled $199 thousand compared to $184 thousand for the second quarter of 2010. The increase from the second quarter of 2010 was primarily due to higher net gains on mortgage banking activities and lower net losses on sales of REO in the second quarter of 2011.

For the six months ended June 30, 2011, non-interest income totaled $380 thousand compared to $456 thousand for the same period a year ago. The decrease primarily reflects lower service charges and other income for the first six months of 2011.

Non-interest Expense

Non-interest expense for the quarter ended June 30, 2011 totaled $4.1 million, compared to $3.8 million for the second quarter of 2010. Higher non-interest expense in the second quarter of 2011 was primarily due to a $672 thousand increase in provision for losses on REO, a $139 thousand increase in FDIC insurance expense, and a $234 thousand increase in other expense, primarily higher REO expenses and appraisal expenses related to delinquent loans. These increases were partially offset by a $466 thousand decrease in provision for losses on loans held for sale, and a $241 thousand decrease in compensation and benefits expense.

For the six months ended June 30, 2011, non-interest expense totaled $7.6 million compared to $7.4 million for the same period a year ago. The increase in non-interest expense during the first half of 2011 primarily reflected higher provision for losses on REO, FDIC insurance expense, REO expenses, and appraisal expenses related to delinquent loans, which were partially offset by lower provision for losses on loans held for sale, compensation and benefits expense, and professional services expense.

Income Taxes

The Company s effective income tax rate was 41.11% and 41.03% for the three and six months ended June 30, 2011 compared to 37.79% and 38.83% for the three and six months ended June 30, 2010. Income taxes for interim periods are computed by applying the projected annual effective income tax rate for the year to the year-to-date earnings plus discrete items (items incurred in the quarter). The projected effective tax rate incorporates certain non-taxable federal and state income items and expected increases to the valuation allowance for projected deferred tax assets. The Company s change in its effective income tax rate for the three and six months ended June 30, 2011, versus the three and six months ended June 30, 2010, includes the impact of low-housing income credit and increase in valuation allowance related to the future utilization of the state deferred tax assets. Based on the future projected book income and utilization of the federal deferred tax assets, the management has determined that a valuation allowance against the federal deferred tax assets is not required.

Financial Condition

Total Assets

Total assets were $447.1 million at June 30, 2011, which represented a decrease of $36.9 million, or 8%, from December 31, 2010. During the first six months of 2011, net loans decreased by $22.5 million, loans held for sale decreased by $13.4 million, cash and cash equivalents decreased by $4.1 million and securities decreased by $2.4 million while REO increased by $3.7 million.

Loan Portfolio

Our gross loan portfolio decreased by $20.9 million to $381.7 million at June 30, 2011 from $402.6 million at December 31, 2010, primarily as loan repayments exceeded loan originations during the six months ended June 30, 2011. The $20.9 million decrease in our loan portfolio primarily consisted of a $6.6 million decrease in our commercial real estate loan portfolio, a $6.5 million decrease in our multi-family residential real estate loan portfolio, a $2.6 million decrease in our church loan portfolio, a $2.3 million decrease in our consumer loan portfolio, a $1.7 million decrease in our one-to-four family residential real estate loan portfolio, and a $1.1 million decrease in our construction loan portfolio.

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Loan originations for the first six months of 2011 totaled $2.3 million compared to $15.3 million for the first six months of 2010. Loan repayments for the six months ended June 30, 2011 totaled $12.8 million compared to $19.3 million for the comparable period in 2010. Loans transferred to REO during the first six months of 2011 totaled $6.4 million, compared to $4.0 million during the first six months of 2010. Loans transferred to loans held for sale during the first six months of 2011 totaled $1.1 million, compared to $1.4 million during the first six months of 2010.

Loans held for sale decreased from $29.4 million at December 31, 2010 to $16.0 million at June 30, 2011. The $13.4 million decrease during the first six months of 2011 was primarily due to loan sales of $10.8 million, which were sold at par, and loan repayments of $3.4 million.

Deposits

Deposits totaled $312.4 million at June 30, 2011, down $36.1 million, or 10%, from year-end 2010. During the first six months of 2011, core deposits (NOW, demand, money market and passbook accounts) decreased by $9.8 million and represented 32% of total deposits at June 30, 2011 and December 31, 2010. Our certificates of deposit (CDs) decreased by $26.3 million during the first six months of 2011 and represented 68% of total deposits at June 30, 2011 and December 31, 2010. The $26.3 million decrease in CDs was primarily due to maturities of $20.0 million of State of California CDs and a reduction of $8.3 million in brokered deposits. Over the past year, our funding strategy has included a plan to substantially eliminate brokered deposits, including deposits under the Certificate of Deposit Account Registry Service. To date, we have successfully reduced our brokered deposits to a level representing only 3% of total deposits at June 30, 2011, compared to 5% at December 31, 2010 and 17% at June 30, 2010.

Borrowings

Since the end of 2010, FHLB borrowings remained unchanged at $87.0 million, as we borrowed $7.0 million from the FHLB to repay $7.0 million of maturing advance. Subordinated debentures remained unchanged at $6.0 million and other borrowings remained unchanged at $5.0 million. See Liquidity and Capital Resources for further information on other borrowings.

Non-Performing Assets

Non-performing assets, comprised of NPLs and REO, were $56.0 million, or 12.53% of total assets, at June 30, 2011, compared to $46.5 million, or 9.60% of total assets, at December 31, 2010. During the first six months of 2011, NPLs, including non-performing loans held for sale, increased by $5.9 million to $49.3 million from $43.4 million at the end of 2010. These loans consist of delinquent loans that are 90 days or more past due and certain loans and TDRs that do not qualify for accrual status. Despite the increase in NPAs during the first six months of 2011, our total delinquencies and our total classified loans, which include NPLs, decreased in number and dollar amount during the first six months of 2011. In addition, at June 30, 2011, approximately $20.8 million, or 42.2%, of our NPLs were paying currently.

The NPLs included 31 church loans totaling $25.3 million, 13 commercial real estate loans totaling $9.1 million, 19 one-to-four family residential real estate loans totaling $5.8 million, 10 multi-family residential real estate loans totaling $4.2 million, four commercial loans totaling $4.6 million, and one land loan of $0.3 million. In addition to the NPLs discussed above, there were $20.6 million and $22.5 million of accruing TDRs at June 30, 2011 and December 31, 2010. These TDRs are on accrual status as the loans have complied with the terms of their restructured agreements for a period of six months or longer.

During the six months ended June 30, 2011, REO increased by $3.7 million to $6.7 million from $3.0 million at the end of 2010. At June 30, 2011 the Bank s REO consisted of three one-to-four family residential properties, two multi-family residential properties and seven commercial real estate properties, four of which are church buildings. As we continue our efforts to reduce non-performing assets, we sold nine REO properties totaling $2.4 million and recorded net loss of $49 thousand during the first six months of 2011. Net lower of cost or market write-downs on REO totaled $782 thousand for the six months ended June 30, 2011 compared to $111 thousand for the same period in 2010.

Performance Ratios

The annualized returns on average equity for the three and six months ended June 30, 2011 were (21.41%) and (11.32%), compared to 10.28% and 11.29% for the three and six months ended June 30, 2010. The annualized returns on average assets for the three and six months ended June 30, 2011 were (1.48%) and (0.78%), compared to 0.62% and 0.69% for the three and six months June 30, 2010. The decrease in our annualized returns on average equity and average assets was primarily due to lower profitability for the three and six months ended June 30, 2011 as a result of higher provision for loan losses and lower net interest income.

The efficiency ratios for the three and six months ended June 30, 2011 were 73.68% and 74.40%, compared to 60.63% and 59.68% for the comparable periods in 2010. The deterioration in our efficiency ratio in 2011 was primarily due to lower net interest income, which was caused by higher levels of nonperforming assets and lower average interest-earning assets, and higher non-interest expenses, related to higher levels of costs related to REO, increase premiums charged by the FDIC and higher appraisal costs.

Liquidity

The Bank s primary source of funds is cash provided by principal and interest payments on loans and securities. In addition to cash provided by principal and interest payments on loans and securities, other sources of funds include cash provided by operating activities, deposits and borrowings.

Sources of funds for the Company on a stand-alone basis include distributions from the Bank and the issuance of equity and debt securities and other borrowings. The Company s primary uses of funds include payment of dividends, payment of interest on its debt obligations and repurchases of common stock. Dividends and other capital distributions from the Bank, however, are subject to general regulatory restrictions and to the special restrictions arising under the cease and desist orders issued to the Bank and to the Company by the OTS that are summarized in Note (10) to our Financial Statements included in Part I of this Report and are further described in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. Under the cease and desist orders, neither the Bank nor the Company may declare or pay dividends, and the Company is not permitted to incur, issue, renew, repurchase, make payments on or increase any debt or redeem any capital stock, without prior notice to and receipt of written notice of non-objection from the OCC.

Net cash inflows from operating activities totaled $2.7 million and $5.4 million during the first six months of 2011 and 2010, respectively. Net cash inflows from operating activities for the six months ended June 30, 2011 were primarily attributable to payments of interest on loans.

Net cash inflows from investing activities totaled $28.8 million and $11.5 million during the first six months of 2011 and 2010, respectively. Net cash inflows from investing activities for the six months ended June 30, 2011 were attributable primarily to proceeds from sales of loans receivable held for sale, principal repayments on loans and residential mortgage-backed securities and proceeds from sales of REOs.

Net cash inflows (outflows) from financing activities totaled ($35.6) million and $29.5 million during the first six months of 2011 and 2010, respectively. Net cash outflows from financing activities for the six months ended June 30, 2011 were attributable primarily to the net decrease in deposits.

On February 28, 2010, we borrowed an aggregate of $5.0 million under our $5.0 million line of credit with another financial institution and invested all of the proceeds in the equity capital of the Bank. Borrowings under the line of credit are secured by the Company s assets. The full amount of this borrowing became due and payable on July 31, 2010. This senior line of credit has not been repaid and we are now in default under the line of credit agreement. We do not have sufficient cash available to repay the borrowing at this time and would require approval of the OTS to make any payment on this senior line of credit or to obtain a dividend from the Bank for such purpose. On April 7, 2011, the Lender agreed to forbear from exercising its rights (other than increasing the interest rate by the default rate margin) until January 1, 2012 subject to certain conditions described in Note 10 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010. There is no assurance that the tender will extend this forbearance beyond January 1, 2012.

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Capital Resources

On November 14, 2008, the Company issued 9,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series D, having a liquidation preference of $1,000 per share, together with a ten-year warrant to purchase 183,175 shares of Company common stock at $7.37 per share, to the U.S. Treasury for gross proceeds of $9.0 million. The sale of the Senior Preferred Stock was made pursuant to the U.S. Treasury s TARP Capital Purchase Program.

On December 8, 2009, the Company issued 6,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series E, having a liquidation preference of $1,000 per share, to the U.S. Treasury for gross proceeds of $6.0 million. The sale of the Senior Preferred Stock was made pursuant to the U.S. Treasury s TARP Capital Purchase Program.

We are pursuing our comprehensive Recapitalization Plan. To date, we have obtained, subject to documentation and certain terms and conditions:

- The consent of the U.S. Treasury to exchange our Series D and E Fixed Rate Cumulative Perpetual Preferred Stock for common stock at a discount of 50% of the liquidation amount, plus an undiscounted exchange of the accumulated but unpaid dividends on such preferred stock for common stock;

- An agreement in principle with the holders of both the Series A and Series B Perpetual Preferred Stock to exchange their holdings for common stock at a discount of 50% of the liquidation amount;

- An agreement in principle with our senior bank lender to exchange a portion of our senior line of credit, which is currently in default, for common stock at 100% of the face amount to be exchanged and to forgive the accrued interest on the entire amount of the line of credit to the date of the exchange.

The conditions to each of the above exchanges include requirements that the holder of our outstanding Series C Noncumulative Perpetual Convertible Preferred Stock concurrently exchange such preferred stock for our common stock on similar terms and that we concurrently complete private placements or other sales of our common stock aggregating $5 million or more in gross proceeds. Based on the agreements in principle that we have reached, we anticipate that these transactions would, if completed, result in the issuance of approximately 7.5 million new shares of our common stock, which would constitute approximately 80% of the pro forma outstanding shares of our common stock.

Regulatory Capital

The capital regulations applicable to the Bank, which are now administered by the OCC, include three separate minimum capital requirements. First, the tangible capital requirement mandates that the Bank s stockholder s equity, less intangible assets, be at least 1.50% of adjusted total assets as defined in the capital regulations. Second, the core capital requirement currently mandates that core capital (tangible capital plus certain qualifying intangible assets) be at least 4.00% of adjusted total assets as defined in the capital regulations. Third, the risk-based capital requirement presently mandates that core capital plus supplemental capital (as defined by the OCC) be at least 8.00% of risk-weighted assets as prescribed in the capital regulations. The capital regulations assign specific risk weightings to all assets and off-balance- sheet items for this purpose.

The Bank was in compliance with all capital requirements in effect at June 30, 2011, and met the generally applicable capital ratio standards necessary to be considered well-capitalized under the prompt corrective action regulations adopted pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. However, in March 2010, the Company and the Bank were determined to be in troubled condition by the OTS and they consented to the issuance to them of cease and desist orders by the OTS effective September 9, 2010, which orders remain in effect and are now administered by the OCC. The cease and desist orders require the Bank to achieve and maintain higher levels of regulatory capital than normally required. Under the applicable regulations, the Bank is therefore precluded from being considered to be more than adequately capitalized until such special capital requirements are terminated and the Company and the Bank are no longer considered to be in troubled condition.

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Actual and normally required capital amounts and ratios at June 30, 2011 and December 31, 2010, together with the higher capital requirements that the Bank is required to meet, under the cease and desist order applicable to it, are presented below.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations		Capital Requirements under Cease and Desist Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratios	Amount	Ratios
	(Dollars in thousands)							
June 30, 2011:								
Tangible Capital to adjusted total assets	$ 39,381	8.87%	$ 6,662	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 39,381	8.87%	$ 17,765	4.00%	$ 22,206	5.00%	$ 35,529	8.00%
Tier 1(Core) Capital to risk weighted assets	$ 39,381	11.94%	N/A	N/A	$ 19,785	6.00%	N/A	N/A
Total Capital to risk weighted assets	$ 43,627	13.23%	$ 26,379	8.00%	$ 32,974	10.00%	$ 39,569	12.00%
December 31, 2010:								
Tangible Capital to adjusted total assets	$ 42,630	8.82%	$ 7,252	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 42,630	8.82%	$ 19,338	4.00%	$ 24,172	5.00%	$ 38,676	8.00%
Tier 1(Core) Capital to risk weighted assets	$ 42,630	11.76%	N/A	N/A	$ 21,754	6.00%	N/A	N/A
Total Capital to risk weighted assets	$ 47,299	13.05%	$ 29,006	8.00%	$ 36,257	10.00%	$ 43,508	12.00%

ITEM 4. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures

As of June 30, 2011, an evaluation was performed under the supervision of the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the Company s CEO and CFO concluded that the Company s disclosure controls and procedures were effective as of June 30, 2011. There were no significant changes in the Company s internal controls over financial reporting during the Company s last fiscal quarter that could significantly affect those controls subsequent to June 30, 2011.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS
Litigation

The Bank is the defendant in Daniel D. Holliday III, Attorney at Law, LLC (Holliday) v. Broadway Federal Bank (Case No. BC 398403), a lawsuit filed in the Superior Court of the State of California for Los Angeles County on September 18, 2008 and amended on March 4, 2009, November 20, 2009 and May 24, 2010. This legal action arises from a dispute over the priority of the Bank s lien against a $2.6 million deposit account balance in the Bank securing a land development loan. The lawsuit seeks damages of $2.6 million, plus interest, costs and attorneys fees according to proof. The plaintiff also seeks injunctive relief to prevent the Bank from asserting a senior security interest in the deposit account and to prevent the Bank from applying the funds in the deposit account to satisfy the amount owing on the loan.

On April 17, 2009, the Bank filed a cross-complaint against Holliday (as an individual), Bachmann Springs Holdings, LLC (the developer), Thomas T. Bachmann (the principal of the developer), Robert Estareja (an agent of Bachmann Springs Holdings), Alan Roberson (the loan broker), Canyon Acquisitions, LLC (Canyon) (the broker who located the investors for the real estate project at issue and the entity funding Holliday s fees and costs), and Brent Borland (Canyon s principal), alleging causes of action for: declaratory relief, money due on default on promissory note, judicial foreclosure on personal property, money lent, fraud, negligent misrepresentation, conspiracy, implied equitable indemnity, rescission based on fraud, and equitable subordination. The allegations of the cross-complaint include that, among other things, the cross-defendants conspired with each other to fraudulently induce the Bank to make the loan at issue.

On or about October 27, 2009, Holliday filed and served a motion for leave to file a third amended complaint, which motion was granted on November 20, 2009. In addition to the causes of action pleaded against the Bank in the second amended complaint, the proposed third amended complaint includes a cause of action against the Bank for equitable subordination as well as causes of action against Wayne Standback, a vice-president of the Bank (Mr. Standback passed away on October 13, 2009) and Paul Hudson, the Chairman and CEO of the Bank, for negligence and conspiracy. Broadway filed a demurrer to and motion to strike the third amended complaint, the hearing on which took place on May 14, 2010. The demurrer was sustained. The fourth amended complaint, which was served on May 24, 2010, contains the same causes of action as the third amended complaint. Mr. Standback, however, is no longer a defendant. Hudson demurred to the fourth amended complaint and the Bank filed an answer.

On February 1, 2010, Canyon filed a complaint in Los Angeles County Superior Court against the Bank and several of its officers and directors including Paul Hudson, Kellogg Chan, Javier Leon, Odell Maddox, Rick McGill, Daniel Medina, and Virgil Roberts, and certain non-Bank related defendants, for declaratory relief, breach of contract, interference with economic relations, negligence, intentional concealment, conspiracy, breach of fiduciary duty, and equitable subordination (Canyon Acquisitions, LLC v. Broadway Federal Bank, Case No. BC 431035). The complaint arises out of the same transaction that is the subject of the Holliday lawsuit discussed above. The Bank notified the court of this fact, which deemed the cases related. In the complaint, Canyon seeks general damages of not less than $10,000,000 and punitive damages in an unspecified amount. Service of the Canyon Complaint was effective as of March 16, 2010. The Bank has filed a demurrer to and motion to strike the complaint, the hearings on which were set for June 18, 2010. However, on June 18, 2010, Canyon filed a first amended complaint alleging similar causes of action and the scheduled hearing was not held. Then, on June 23, 2010, Canyon filed a motion to (1) consolidate the Canyon and Holliday lawsuits and (2) treat the Canyon lawsuit as a cross-complaint in the Holliday lawsuit. The hearing on Canyon s motion was set for July 16, 2010.

However, on July 16, 2010, pursuant to the Stipulation between the parties, which was approved by the Court, the two cases (Holliday and Canyon) were consolidated, the Canyon Complaint is treated as a cross-complaint in the Holliday lawsuit, the trial was postponed from October 5, 2010 to May 10, 2011, and the following individuals were dismissed from the litigation with prejudice: all of the Broadway officers and directors who had been named as individual defendants in the Holliday and Canyon matters, Brent Borland, Daniel Holliday, III (as an individual only), and the Estate of Wayne Standback.

On August 31, 2010, the Bank filed a demurrer to Canyon s cross-complaint, the hearing on which took place on December 8, 2010. At the hearing, the Court overruled the Bank s demurrer to Canyon s Second Cause of Action for Breach of Contract and sustained the Bank s demurrer to Canyon s Seventh Cause of Action for Breach of Fiduciary Duty without leave to amend. The Bank subsequently filed an answer to Canyon s cross-complaint and asserted various affirmative defenses.

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In or about May 2011, the Bank and Holliday/Canyon entered into a written settlement agreement to resolve the matter on the following terms: (1) Broadway paid the sum of $2,350,000 to Holliday/Canyon; (2) Holliday and Canyon dismissed their complaint and cross-complaint with prejudice as to Broadway; (3) Broadway dismissed its cross-complaint with prejudice as to Holliday and Canyon; and (4) the parties executed mutual, general releases. The Holliday and Canyon complaint and the Broadway cross-complaint were dismissed with prejudice on June 9, 2011.

BancInsure, the Bank s liability insurer, contributed $150,000 to the settlement in exchange for a release of all claims related to Holliday, Canyon and the transactions described above. BancInsure, moreover, has paid the Bank in excess of $375,000 for the fees and costs incurred by the Bank in defending against the Holliday and Canyon actions.

With respect to the foregoing matters, management has closed the deposit account securing the loan and has written off the loan, which was fully reserved for as of March 31, 2011.

OTS Investigation

In 2010, the OTS notified us that it had initiated a formal investigation of the activities of a former loan officer of the Bank whose employment was terminated in March 2010. In connection with the investigation, the OTS issued subpoenas to the chief lending officer and chief executive officer requesting documents relating to our former loan officer and loans he originated while employed by the Bank. The subpoenas also contemplate taking oral testimony from the officers. While the OTS did not inform us of the scope of its investigation, we believe the investigation includes, but may not be limited to, inquiry into whether documentation submitted in connection with loan applications for loans originated by the loan officer contained inaccurate or deliberately falsified information and whether the loan officer received unauthorized direct or indirect benefits from payments made by the borrowers on such loans to loan brokers or other persons associated with the lending process. All of the loans originated by the former loan officer have been reviewed by us and by the independent loan review firm we engaged to perform a general review of our loan portfolio pursuant to the C&D issued to us by the OTS. See Item 1. Business Regulation Cease and Desist Orders of our Annual Report on Form 10-K for the year ended December 31, 2010. We have taken the results of these loan reviews into account, along with all other relevant information known to us, in determining the amounts of our loan loss provisions and the level of our loan loss reserves that we believe to be appropriate as of June 30, 2011.

Item 1A. RISK FACTORS

None

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. RESERVED

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

Exhibit 31.1	-	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	-	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	-	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document (1)

(1) 101 XBRL Interactive Data File will be filed by amendment to this Form 10-Q within 30 days of the filing date of this Form 10-Q, as permitted by Rule 405(a)(2) of Regulation S-T.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 15, 2011	By: /s/ Paul C. Hudson Paul C. Hudson Chief Executive Officer
Date: August 15, 2011	By: /s/ Samuel Sarpong Samuel Sarpong Chief Financial Officer