BROADWAY FINANCIAL CORP \DE\
Form 10-K/A
April 19, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

Amendment No. 1

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-27464

BROADWAY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-4547287**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
4800 Wilshire Boulevard, Los Angeles, California	**90010**
(Address of principal executive offices)	**(Zip Code)**

(323) 634-1700

(Registrant s Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share (including attached preferred stock purchase rights)	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter: $2,684,000

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: As of March 31, 2011, 1,743,965 shares of the Registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable

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This amendment is being filed to correct the total authorized shares of common stock reported on our Consolidated Balance Sheets on Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2010 as originally filed. Unless otherwise expressly stated herein this amendment does not reflect any events occurring after the filing of our original Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements of Broadway Financial Corporation and Subsidiaries.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROADWAY FINANCIAL CORPORATION

By: /s/ Paul C. Hudson
Paul C. Hudson
Chief Executive Officer
Date: April 19, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Paul C. Hudson Paul C. Hudson Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	Date: April 19, 2011
/s/ Samuel Sarpong Samuel Sarpong Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	Date: April 19, 2011

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Broadway Financial Corporation:

We have audited the accompanying consolidated balance sheets of Broadway Financial Corporation and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of operations and comprehensive earnings (loss), changes in stockholders equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Broadway Financial Corporation and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Costa Mesa, California

April 14, 2011

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
	(In thousands, except share and per share)	
Assets		
Cash and cash equivalents	$ 21,978	$ 7,440
Securities available-for-sale, at fair value	10,524	14,961
Securities held-to-maturity (fair value of $13,261 at December 31, 2010 and $16,838 at December 31, 2009)	12,737	16,285
Loans receivable held for sale, net	29,411	20,940
Loans receivable, net of allowance of $20,458 and $20,460	382,616	432,640
Accrued interest receivable	2,216	2,419
Federal Home Loan Bank (FHLB) stock, at cost	4,089	4,305
Office properties and equipment, net	5,094	5,363
Real estate owned	3,036	2,072
Bank owned life insurance	2,522	2,418
Deferred income taxes	5,369	4,986
Other assets	4,338	7,217
Total assets	$ 483,930	$ 521,046
Liabilities and stockholders equity		
Deposits	$ 348,445	$ 385,488
Federal Home Loan Bank advances	87,000	91,600
Junior subordinated debentures	6,000	6,000
Other borrowings	5,000	-
Advance payments by borrowers for taxes and insurance	272	372
Other liabilities	4,353	6,071
Total liabilities	451,070	489,531
Commitments and Contingencies (Note 16)		
Stockholders Equity:		
Senior preferred cumulative and non-voting stock, $1,000 par value, authorized, issued and outstanding 9,000 shares of Series D at December 31, 2010 and 2009; liquidation preference of $9,000 at December 31, 2010 and 2009	8,963	8,963
Senior preferred cumulative and non-voting stock, $1,000 par value, authorized, issued and outstanding 6,000 shares of Series E at December 31, 2010 and 2009; liquidation preference of $6,000 at December 31, 2009 and 2009	5,974	5,974
Preferred non-cumulative and non-voting stock, $.01 par value, authorized 1,000,000 shares; issued and outstanding 55,199 shares of Series A, 100,000 shares of Series B and 76,950 shares of Series C at December 31, 2010 and 2009; liquidation preference of $552 for Series A, $1,000 for Series B and $1,000 for Series C at December 31, 2010 and 2009	2	2
Preferred stock discount	(1,380)	(1,756)
Common stock, $.01 par value, authorized 8,000,000 shares at December 31, 2010 and 3,000,000 shares at December 31, 2009; issued 2,013,942 shares at December 31, 2010 and 2009; outstanding 1,743,965 shares at December 31, 2010 and 1,743,365 shares at December 31, 2009	20	20
Additional paid-in capital	14,395	14,273
Retained earnings-substantially restricted	8,074	7,322
Accumulated other comprehensive income, net of taxes of $176 at December 31, 2010 and $118 at December 31, 2009	263	176

Treasury stock-at cost, 269,977 shares at December 31, 2010 and 270,577 shares at December 31, 2009	(3,451)	(3,459)
Total stockholders equity	32,860	31,515
Total liabilities and stockholders equity	$ 483,930	$ 521,046

See accompanying notes to consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Earnings (Loss)

	Year Ended December 31, 2010	2009
	(In thousands, except per share)	
Interest and fees on loans receivable	$ 28,821	$ 27,366
Interest on mortgage-backed securities	914	1,158
Interest on investment securities	50	50
Other interest income	52	94
Total interest income	29,837	28,668
Interest on deposits	5,910	6,922
Interest on borrowings	3,363	3,066
Total interest expense	9,273	9,988
Net interest income before provision for loan losses	20,564	18,680
Provision for loan losses	4,465	19,629
Net interest income after provision for loan losses	16,099	(949)
Non-interest income:		
Service charges	1,175	1,222
Net gains (losses) on sales of loans	(22)	6
Net losses on sales of REO	(88)	-
Other	1,593	731
Total non-interest income	2,658	1,959
Non-interest expense:		
Compensation and benefits	6,657	6,118
Occupancy expense, net	1,429	1,393
Information services	807	813
Professional services	1,167	630
Provision for losses on loans held for sale	1,188	734
Provision for losses on REO	1,102	-
FDIC insurance	1,043	819
Office services and supplies	548	572
Other	1,560	1,036
Total non-interest expense	15,501	12,115
Earnings (loss) before income taxes	3,256	(11,105)
Income tax expense (benefit)	1,341	(4,646)
Net earnings (loss)	$ 1,915	$ (6,459)
Other comprehensive income, net of tax:		
Unrealized gain on securities available-for-sale	$ 145	$ 240
Income tax effect	(58)	(96)

Other comprehensive income, net of tax	87	144
Comprehensive earnings (loss)	$ 2,002	$ (6,315)
Net earnings (loss)	$ 1,915	$ (6,459)
Dividends and discount accretion on preferred stock	(1,145)	(749)
Earnings (loss) available to common stockholders	$ 770	$ (7,208)
Earnings (loss) per common share-basic	$ 0.44	$ (4.14)
Earnings (loss) per common share-diluted	$ 0.44	$ (4.14)

See accompanying notes to consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

(In thousands, except per share)

	Preferred Stock	Preferred Stock Discount	Common Stock	Common Stock Warrant	Additional Paid-in Capital	Retained Earnings (Substantially Restricted)	Accumulated Other Comprehensive Income, Net	Treasury Stock	Total Stockholders Equity
Balance at December 31, 2008	$ 8,965	$ (702)	$ 20	$ 723	$ 12,240	$ 14,878	$ 32	$ (3,467)	$ 32,689
Net loss for the year ended December 31, 2009	-	-	-	-	-	(6,459)	-	-	(6,459)
Unrealized gain on securities available-for-sale, net of tax	-	-	-	-	-	-	144	-	144
Preferred stock issued Series E	5,974	(1,200)	-	-	1,200	-	-	-	5,974
Common stock warrant cancellation	-	-	-	(723)	723	-	-	-	-
Treasury stock used for vested stock awards	-	-	-	-	(2)	-	-	8	6
Cash dividends declared ($0.20 per common share)	-	-	-	-	-	(348)	-	-	(348)
Cash dividends declared ($0.50 per preferred share of Series A, $0.50 per preferred share of Series B and $0.65 per preferred share of Series C)	-	-	-	-	-	(128)	-	-	(128)
Cash dividends paid and accrued ($50 per senior preferred share of Series D)	-	-	-	-	-	(450)	-	-	(450)
Cash dividends accrued ($4.17 per senior preferred share of Series E)	-	-	-	-	-	(25)	-	-	(25)
Stock-based compensation expense	-	-	-	-	112	-	-	-	112
Accretion of preferred stock discount	-	146	-	-	-	(146)	-	-	-
Balance, at December 31, 2009	14,939	(1,756)	20	-	14,273	7,322	176	(3,459)	31,515
Net earnings for the year ended December 31, 2010	-	-	-	-	-	1,915	-	-	1,915
Unrealized gain on securities available-for-sale, net of tax	-	-	-	-	-	-	87	-	87
Treasury stock used for vested stock awards	-	-	-	-	(2)	-	-	8	6
Cash dividends declared ($0.01 per common share)	-	-	-	-	-	(18)	-	-	(18)
Cash dividends declared ($0.125 per preferred share of Series A and Series B)	-	-	-	-	-	(19)	-	-	(19)
Cash dividends accrued ($50 per senior preferred share of Series D)	-	-	-	-	-	(450)	-	-	(450)
Cash dividends accrued ($50 per senior preferred share of Series E)	-	-	-	-	-	(300)	-	-	(300)
Stock-based compensation expense	-	-	-	-	124	-	-	-	124
Accretion of preferred stock discount	-	376	-	-	-	(376)	-	-	-
Balance, at December 31, 2010	$ 14,939	$ (1,380)	$ 20	$ -	$ 14,395	$ 8,074	$ 263	$ (3,451)	$ 32,860

See accompanying notes to consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December 31 2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net earnings (loss)	$ 1,915	$ (6,459)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Provision for loan losses	4,465	19,629
Provision for losses on loans held for sale	1,188	734
Provision for losses on REO	1,102	-
Depreciation	425	440
Net amortization of premiums and discounts on loans purchased	(6)	(8)
Net amortization of net deferred loan origination (fees) costs	30	16
Net amortization of premiums on mortgage-backed securities	192	88
Stock-based compensation expense	124	112
Earnings on bank owned life insurance	(104)	(95)
Net losses on sales of REO	88	-
Net change in:		
Loans receivable held for sale, net	12,685	2,902
Accrued interest receivable	203	(124)
Other assets	2,879	(3,873)
Deferred income taxes	(441)	(5,551)
Other liabilities	(1,178)	(279)
Net cash provided by operating activities	23,567	7,532
Cash flows from investing activities:		
Available-for-sale securities:		
Maturities, prepayments and calls	4,400	1,347
Purchases	-	(11,910)
Held-to-maturity securities:		
Maturities, prepayments and calls	3,538	6,483
Net change in loans receivable	18,186	(121,076)
Proceeds from sale of REO	2,883	-
Investment in affordable housing limited partnership	(832)	-
Purchase of Federal Home Loan Bank stock	(231)	(207)
Proceeds from redemption of Federal Home Loan Bank stock	447	-
Additions to office properties and equipment	(156)	(268)
Net cash provided by (used in) investing activities	28,235	(125,631)
Cash flows from financing activities:		
Net change in deposits	(37,043)	95,571
Proceeds from Federal Home Loan Bank advances	3,500	23,600
Repayments on Federal Home Loan Bank advances	(8,100)	(6,000)
Net increase in other borrowings	5,000	-
Proceeds from issuance of preferred stock	-	5,974
Cash dividends paid	(527)	(951)
Reissuance of treasury stock	6	6
Net change in advance payments by borrowers for taxes and insurance	(100)	(137)

Net cash provided by (used in) financing activities	(37,264)	118,063
Net change in cash and cash equivalents	14,538	(36)
Beginning cash and cash equivalents	7,440	7,476
Ending cash and cash equivalents	$ 21,978	$ 7,440
Supplemental cash flow information:		
Interest paid	$ 9,216	$ 10,033
Income taxes paid	620	2,735
Supplemental non-cash disclosure:		
Transfers from loans receivable to loans receivable held for sale, net	$ 22,688	$ -
Transfers of loans receivable to REO	4,661	2,072
Transfers of loans receivable held for sale to REO	344	-

See accompanying notes to consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 1 Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Broadway Financial Corporation (the Company) is a Delaware corporation primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the Bank). The Bank s business is that of a financial intermediary and consists primarily of attracting deposits from the general public and using such deposits, together with borrowings and other funds, to make mortgage loans secured by residential and commercial real estate located in Southern California. At December 31, 2010, the Bank operated five retail-banking offices and two loan production offices in Southern California. The Bank is subject to significant competition from other financial institutions, and is also subject to regulation by certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Broadway Federal Bank, f.s.b. and Broadway Service Corporation. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. generally accepted accounting principles), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance and provision for loan losses, impaired loans, the fair value of loans held for sale, the classification of investment securities, the fair value of real estate owned, deferred tax asset valuation allowance, disallowed deferred tax assets for regulatory capital, and fair values of investment securities and other financial instruments are particularly subject to change.

Cash Flows

Cash and cash equivalents include cash, deposits with other financial institutions under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, accrued interest receivable, other assets, deferred income taxes, other liabilities, and advance payments by borrowers for taxes and insurance.

Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Consideration is

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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 the intent and ability of management to retain its 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, management considers 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.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing rights. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold. When loans held for sale are sold, existing deferred loan fees or costs are an adjustment of the gain or loss on sale.

Servicing Rights

Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in net gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with servicing fee income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Mortgage servicing rights assets totaled $487 thousand and $450 thousand at December 31, 2010 and 2009 and were included in other assets on the consolidated balance sheets,

Servicing fee income, which is reported on the consolidated statements of operations and comprehensive earnings as service charges is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. Servicing fees totaled $68 thousand and $101 thousand for the years ended December 31, 2010 and 2009. Late fees and ancillary fees related to loan servicing are not material.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of allowance for loan losses, loans in process, deferred loan fees and costs and unamortized premiums and discounts. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs are deferred, and recognized in income using the level-yield method over the contractual life of the loans, adjusted for prepayments.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk

Most of the Company s business activity, excluding loans made to churches throughout the country, is with customers located within Southern California. Therefore, the Company s exposure to credit risk is significantly affected by changes in the economy in the Southern California area.

Loans Purchased

The Bank purchases or participates in loans originated by other institutions. The determination to purchase loans is based upon the Bank s investment needs and market opportunities. Subject to regulatory restrictions applicable to savings institutions, the Bank s current loan policies allow all loan types to be purchased. The determination to purchase specific loans or pools of loans is subject to the Bank s underwriting policies, which require consideration of the financial condition of the borrower and the appraised value of the property, among other factors. Premiums or discounts incurred upon the purchase of loans are recognized in income using the interest method over the estimated life of the loans, adjusted for prepayments.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDR) and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Impairment is measured on a loan by loan basis. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 18 months. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: one to four units, five or more units, commercial real estate, church, construction, commercial loans, and consumer loans. One to four units, five or more units, commercial real estate, church and construction loans each consist of a single class. Classes within our commercial loan portfolio consist of sports and other loans. Classes within our consumer loan portfolio consist of loan on savings and other loans.

One to Four Units Subject to adverse employment conditions in the local economy leading to increased default rate; decreased market values from oversupply in a geographic area; impact to borrowers ability to maintain payments in the event of incremental rate increases on adjustable rate mortgages.

Five or More Units Subject to adverse various market conditions that cause a decrease in market value or lease rates; change in personal funding sources for tenants; over supply of units in a specific region; a shift in population; reputational risks.

Commercial Real Estate Subject to adverse conditions in the local economy which may lead to reduced cash flows due to vacancies and reduced rental rates; decreases in the value of underlying collateral.

Church Subject to adverse economic and employment conditions leading to reduced cash flows from members donations and offerings; the stability, quality and popularity of church leadership.

Construction Subject to adverse conditions in the local economy which may lead to reduced demand for new commercial, multi-family or single-family buildings or reduced lease or sale opportunities once the building is complete.

Commercial Subject to industry conditions including decreases in product demand; intangible value of a professional sports franchise.

Consumer Subject to adverse employment conditions in the local economy which may lead to higher default rate.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded as real estate owned or repossessed assets at the lower of cost or fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Office Properties and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the lease term or the estimated useful life of the asset whichever is shorter.

Federal Home Loan Bank (FHLB) stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on a key executive. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Loan Commitments and Related Financial Instruments

Financial instruments include off balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Retirement Plans

Employee 401(k) expense is the amount of matching contributions. Deferred compensation plan expense allocates the benefits over years of service. The cost of shares issued to the Employee Stock Ownership Plan (ESOP) but not yet allocated to participants is shown as a reduction of stockholders equity. Compensation

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest, if any.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Preferred Stock

The Series A and Series B preferred stock are non-convertible, non-cumulative, non-redeemable and non-voting perpetual preferred stock, with a par value of $0.01 per share and a liquidation preference of $10.00 per share. The Series C perpetual convertible preferred stock is non-voting and non-cumulative, with a par value of $0.01 per share and a liquidation preference of $13.00 per share. The Series C preferred stock is convertible at a conversion price of $13.00 per share, subject to certain anti-dilution adjustment provisions. The Series A, B and C preferred stocks have non-cumulative annual dividend rates of 5% of their liquidation preference.

The Series D and Series E preferred stock are cumulative and non-voting perpetual preferred stock with a liquidation preference of $1 thousand per share. Series D and E preferred stocks accrue cumulative dividends at the rate of 5% of their liquidation preference per year for the first five years after issuance and 9% per year thereafter.

Earnings Per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Comprehensive Earnings (Loss)

Comprehensive earnings (loss) consists of net earnings (loss) and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available-for-sale, net of tax, which are also recognized as separate components of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are any such matters that will have a material effect on the consolidated financial statements.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

On September 18, 2008, a lawsuit was filed in the Superior Court of the State of California for Los Angeles County against the Bank by Daniel D. Holliday III, Attorney at Law, LLC (Holliday). 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 on the deposit account and to prevent the Bank from applying the funds in the deposit account to satisfy the amount owing in 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 basis of the cross-complaint is that, among other things the cross-defendants conspired with each other to fraudulently induce the Bank to make the loan at issue. See Part I, Item 3, Legal Proceedings for further description.

A $1.5 million specific allocation of the allowance for loan losses has been established for the related $2.2 million loan as of December 31, 2010.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by a bank to its holding company or by the holding company to its stockholders. (See Note 15 for more specific disclosure.)

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no affect on prior year consolidated net earnings or stockholders equity.

Adoption of New Accounting Standards

In July 2010, the FASB amended existing disclosure guidance to require an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The guidance requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 4 to these Consolidated Financial Statements for the required disclosures at December 31, 2010.

Note 2 Securities

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolios at December 31, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains which are recognized in accumulated other comprehensive income, for available-for-sale investment securities, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2010:				
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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2009:				
Available-for-sale				
Residential mortgage-backed	$ 14,667	$ 294	$ -	$ 14,961
Total available-for-sale	$ 14,667	$ 294	$ -	$ 14,961
Held-to-maturity				
Residential mortgage-backed	$ 15,285	$ 460	$ -	$ 15,745
U.S. Government and federal agency	1,000	93	-	1,093
Total held-to-maturity	$ 16,285	$ 553	$ -	$ 16,838

There were no securities with unrealized losses at December 31, 2010 and 2009.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The amortized cost and fair value of the investment securities portfolios are shown by contractual maturity at December 31, 2010. 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.

	Available-for-Sale		Held-to-Maturity	
Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Within one year	$ -	$ -	$ -	$ -
One to five years	-	-	1,000	1,099
Five to ten years	-	-	-	-
Beyond ten years	-	-	-	-
Residential mortgage-backed	10,085	10,524	11,737	12,162
Total	$ 10,085	$ 10,524	$ 12,737	$ 13,261

Securities pledged at year-end 2010 and 2009 had a carrying amount of $12.7 million and $16.3 million and were pledged to secure public deposits and FHLB advances. At year-end 2010 and 2009, 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 years ended December 31, 2010 and 2009.

Note 3 Loans Receivable Held-for-Sale, Net

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 $5.1 million, net of charge-offs of $414 thousand and a $769 thousand valuation allowance, as of December 31, 2010 and totaled $5.7 million, net of a $994 thousand valuation allowance, at December 31, 2009. 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 $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 $344 thousand, net of charge-off of $486 thousand, was transferred to REO during the third quarter of 2010.

We recorded lower of cost or market write-downs on non-performing loans receivable held-for-sale totaling $902 thousand for the year ended December 31, 2010, compared to $734 thousand for the same period in 2009. Additionally, during 2010, we established a valuation allowance of $286 thousand 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 Consolidated Financial Statements (continued)

Note 4 Loans

Loans at year-end were as follows:

	December 31, 2010	December 31, 2009
	(In thousands)	
Loans receivable, held for sale:		
Five or more units	$ 16,217	$ 4,385
Commercial real estate	5,067	6,600
Church	9,408	10,949
Valuation allowance for unrealized losses	(1,281)	(994)
Loans receivable, held for sale, net	$ 29,411	$ 20,940
Loans receivable, net:		
One to four units	$ 82,764	$ 90,747
Five or more units	128,534	146,291
Commercial real estate	72,770	82,276
Church	97,634	101,007
Construction	5,421	5,547
Commercial:		
Sports	5,768	10,106
Other	6,410	13,060
Consumer:		
Loan on savings	3,259	4,006
Other	29	104
Total gross loans receivable	402,589	453,144
Less:		
Loans in process	371	822
Net deferred loan fees (costs)	(889)	(817)
Unamortized discounts	33	39
Allowance for loan losses	20,458	20,460
Loans receivable, net	$ 382,616	$ 432,640

Activity in the allowance for loan losses was as follows:

	2010	2009
	(In thousands)	
Beginning balance	$ 20,460	$ 3,559
Provision for loan losses	4,465	19,629
Recoveries	5	-
Loans charged off	(4,472)	(2,728)

Ending balance	$ 20,458	$ 20,460

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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 December 31, 2010:

	One to four units	Five or more units	Commercial	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	3,196	1,659	2,322	6,544	168	431	110	14,430
Total ending allowance balance	$ 3,619	$ 1,728	$ 3,257	$ 8,662	$ 168	$ 1,373	$ 1,651	$ 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

Impaired loans were as follows:

	December 31, 2010	December 31, 2009
	(In thousands)	
Year-end loans with no allocated allowance:		
Without charge-off	$ 20,767	$ 12,554
With charge-off	5,424	4,946
Year-end loans with allocated allowance:		
Without charge-off	29,532	32,142
With charge-off	2,309	-
Total	$ 58,032	$ 49,642
Amount of the allowance for loan losses allocated	$ 6,028	$ 5,374
Average of individually impaired loans during the year	$ 49,176	$ 19,960
Interest income recognized during impairment	2,241	2,445
Cash-basis interest income recognized	2,881	2,445

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	Unpaid Principal Balance	Recorded Investment (In thousands)	Allowance for Loan Losses Allocated
With no related allowance recorded:			
One to four units	$ 7,953	$ 5,991	$ -
Five or more units	600	586	-
Commercial real estate	8,409	8,133	-
Church	11,782	11,161	-
Construction	320	320	-
With an allowance recorded:			
One to four units	4,129	3,971	423
Five or more units	1,674	1,674	69
Commercial real estate	5,072	5,073	935
Church	15,183	15,090	2,118
Commercial:			
Sports	4,000	3,768	942
Consumer:			
Loan on savings	2,249	2,249	1,525
Other	16	16	16
Total	$ 61,387	$ 58,032	$ 6,028

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

	December 31, 2010	December 31, 2009
	(In thousands)	
Loans receivable, held for sale:		
Five or more units	$ 385	$ 1,013
Commercial real estate	-	422
Church	5,533	2,578
Loans receivable, net:		
One to four-units	6,227	4,756
Five or more units	1,865	631
Commercial real estate	10,321	5,639
Church	12,748	10,364
Construction	320	-
Commercial:		
Sports	3,768	4,000
Other	-	3,269
Consumer:		
Loan on Savings	2,249	2,249

Other	16	-
Total nonaccrual loans	$ 43,432	$ 34,921

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

There were no loans 90 days or more delinquent that were accruing interest as of December 31, 2010 and 2009.

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

	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

The Company has allocated $1.6 million and $543 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2010 and 2009. 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. At December 31, 2009, loans classified as a TDR totaled $32.5 million, of which $11.0 million were included in nonaccrual loans and $21.5 million were on accrual status. As of December 31, 2010 and December 31, 2009, we did not have any outstanding commitments to extend additional funds to these borrowers.

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.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	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 5 Real Estate Owned

Activity in the valuation allowance was as follows:

	2010	2009
	(In thousands)	
Beginning valuation allowance	$ -	$ -
Additions charged to expense	1,102	-
Direct write-downs	(1,048)	-
Ending valuation allowance	$ 54	$ -

Expenses related to foreclosed assets include:

	2010	2009
	(In thousands)	
Net loss (gain) on sales	$ 88	$ -
Provision for unrealized losses	1,102	-
Operating expenses	231	9
Total	$ 1,421	$ 9

Note 6 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.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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.

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.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Assets Measured on a Recurring Basis

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

		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	$ -

		Fair Value Measurements at December 31, 2009 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	$ 14,961	$ -	$ 14,961	$ -

Assets Measured on a Non-Recurring Basis

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

		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:				
Non-performing loans receivable held-for-sale, net				
Five or more units	$ 366	$ -	$ -	$ 366
Church	4,783	-	-	4,783

Impaired loans carried at fair value of collateral				
One to four units	3,775	-	-	3,775
Five or more units	1,606	-	-	1,606
Commercial real estate	2,542	-	-	2,542
Church	5,591	-	-	5,591
Commercial	2,826	-	-	2,826
Consumer	749	-	-	749
Real estate owned				
One to four units	1,086	-	-	1,086
Five or more units	260	-	-	260
Commercial real estate	568	-	-	568
Church	1,122	-	-	1,122

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

		Fair Value Measurements at December 31, 2009 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:				
Non-performing loans receivable held-for-sale, net	$ 5,700	$ -	$ -	$ 5,700
Impaired loans carried at fair value of collateral	17,071	-	-	17,071

The following table provides information regarding our assets measured at fair value on a non-recurring basis at December 31, 2010 and 2009, and the losses recognized on these assets for the years ended December 31, 2010 and 2009.

	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.

	Principal Amount at December 31, 2009	Valuation Allowance at December 31, 2009	Losses for the year ended December 31, 2009
		(In thousands)	
Non-performing loans receivable held-for-sale, net (1)	$ 6,694	$ 994	$ 734
Impaired loans carried at fair value of collateral (2)	21,902	4,831	5,924
Total	$ 28,596	$ 5,825	$ 6,658

(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 $4.9 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.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Fair Values of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at December 31, 2010 and December 31, 2009 are as follows:

	At December 31,			
	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 21,978	$ 21,978	$ 7,440	$ 7,440
Securities available-for-sale	10,524	10,524	14,961	14,961
Securities held-to-maturity	12,737	13,261	16,285	16,838
Loans receivable held for sale, net	29,411	29,411	20,940	20,940
Loans receivable, net	382,616	384,274	432,640	434,770
Federal Home Loan Bank stock	4,089	N/A	4,305	N/A
Accrued interest receivable	2,216	2,216	2,419	2,419
Financial Liabilities:				
Deposits	$ (348,445)	$ (347,373)	$ (385,488)	$ (382,435)
Federal Home Loan Bank advances	(87,000)	(91,615)	(91,600)	(94,491)
Junior subordinated debentures	(6,000)	(4,609)	(6,000)	(5,237)
Other borrowings	(5,000)	(4,979)	-	-
Advance payments by borrowers for taxes and insurance	(272)	(272)	(372)	(372)
Accrued interest payable	(550)	(550)	(494)	(494)

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.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note 7 Office Properties and Equipment, net

Year-end office properties and equipment were as follows:

	2010	2009
	(In thousands)	
Land	$ 1,723	$ 1,723
Office buildings and improvements	5,041	5,007
Furniture, fixtures and equipment	2,141	2,019
	8,905	8,749
Less accumulated depreciation	(3,811)	(3,386)
Office properties and equipment, net	$ 5,094	$ 5,363

Depreciation expense was $425 thousand and $440 thousand for 2010 and 2009.

At December 31, 2010, the Company was obligated through 2013 under various non-cancelable operating leases on buildings and land used for office space and banking purposes. These operating leases contain escalation clauses which provide for increased rental expense, based primarily on increases in real estate taxes and cost-of-living-indices. The Company also leases certain office equipment. Rent expense under the operating leases was $285 thousand for 2010 and $282 thousand for 2009.

Rent commitments, before considering renewal options that generally are present, were as follows:

	Premises	Equipment	Total
		(In thousands)	
Year ending December 31:			
2011	$ 124	$ 85	$ 209
2012	82	84	166
2013	44	28	72
Total	$ 250	$ 197	$ 447

Note 8 Deposits

Deposits are summarized as follows:

	December 31,	
	2010	2009
	(In thousands)	
NOW account and other demand deposits	$ 23,780	$ 32,417
Non-interest bearing demand deposits	22,610	17,422

Money market deposits	23,499	31,031
Passbook	40,373	36,164
Certificates of deposit	238,183	268,454
Total	$ 348,445	$ 385,488

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

At December 31, 2010 and 2009, brokered deposits totaled $18.2 million and $101.0 million, respectively. As disclosed in Note 15, the Bank is not permitted to increase the amount of its brokered deposits beyond the amount of interest credited without prior notice of non-objection from the OTS Regional Director.

Certificates of deposit of $100 thousand or more were $160.0 million and $187.4 million at year end 2010 and 2009.

Scheduled maturities of certificates of deposit for the next five years were as follows:

Maturity	Amount (In thousands)
2011	$ 130,539
2012	74,390
2013	19,415
2014	8,567
2015	1,163
Thereafter	4,109
	$ 238,183

Note 9 Federal Home Loan Bank Advances

At year-end, advances from the Federal Home Loan Bank were as follows:

	Amount (In thousands)
December 31, 2010:	
Maturities January 2011 to February 2018, fixed rates at rates from 1.34% to 4.81%, averaging 3.24%	$ 87,000
December 31, 2009:	
Maturities January 2010 to February 2018, fixed rates at rates from 0.59% to 4.81%, averaging 3.36%	$ 88,000
Maturity January 2010 variable rate at 0.04%	3,600
	$ 91,600

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $243.0 million and $288.6 million of first mortgage loans and $11.1 million and $14.6 million of residential mortgage-backed securities under a blanket lien arrangement at year-end 2010 and 2009. Based on this collateral, the Company s holdings of FHLB stock and a general borrowing limit of 30% of assets, the Company is eligible to borrow up to an additional $35.4 million at year-end 2010. However, on February 18, 2011, the Company s general borrowing limit was reduced to $100.0 million, which decreased our remaining borrowing capacity to $13.0 million as of February 18, 2011.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Required payments over the next five years are as follows:

	Amount (In thousands)
2011	$ 9,000
2012	13,000
2013	3,500
2014	30,000
2015	8,500
Thereafter	23,000
	$ 87,000

Note 10 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 2.84% at year-end 2010. The Company has ceased paying interest on the debentures and the line of credit discussed below since September 2010. As disclosed in Note 15, 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 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 our $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 will increase by an additional 5% in the event of default. Any 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 we are 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 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 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.

The Company is pursuing a comprehensive Recapitalization Plan to improve the Company s capital structure. To date, the Company has obtained the 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 both the Series A, and Series B Perpetual Preferred Stock and

Series C Noncumulative Perpetual Convertible Preferred Stock to

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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 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 will result in the issuance of approximately 7.0 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.

Note 11 Employee Benefit Plans

Broadway Federal 401(k) Plan

A 401(k) benefit plan allows employee contributions for substantially all employees up to 15% of their compensation, which are matched at a rate equal to 50% of the first 6% of the compensation contributed. Expense totaled $86 thousand for 2010 and 2009.

ESOP Plan

Employees participate in an Employee Stock Ownership Plan (ESOP) after attaining certain age and service requirements. At the end of employment, participants will receive cash or shares at their election for their vested balance. Vesting occurs over seven years. Shares held by the ESOP and allocated to participants were 87,505 at December 31, 2010 and 2009. There are no shares unallocated as of December 31, 2010 and 2009. Dividends on allocated shares increase participant accounts. In addition to shares allocated, the Bank makes discretionary cash contributions to participant accounts. Cash contributions totaled $56 thousand for the year ended December 31, 2010 and $66 thousand for the year ended December 31, 2009. Compensation expense related to the ESOP was $56 thousand for 2010 and $77 thousand for 2009.

Deferred Compensation Plan

The Bank has a deferred compensation agreement with its Chief Executive Officer (CEO) whereby a stipulated amount will be paid to the CEO over a period of 15 years upon his retirement. The amount accrued under this agreement was $614 thousand at December 31, 2010 and $472 thousand at December 31, 2009, and is accrued over the period of active employment. Compensation expense was $142 thousand for 2010 and $134 thousand for 2009.

Note 12 Income Taxes

Income tax expense (benefit) was as follows:

	2010	2009
	(In thousands)	
Current		
Federal	$ 1,502	$ 887
State	280	18
Deferred		
Federal	(443)	(4,152)
State	(299)	(1,564)
Change in valuation allowance	301	165
Total	$ 1,341	$ (4,646)

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Effective tax rates differ from the federal statutory rate of 34% applied to earnings before income taxes due to the following:

	2010	2009
	(In thousands)	
Federal statutory rate times financial statement income (loss)	$ 1,107	$ (3,776)
Effect of:		
State taxes, net of federal benefit	233	(794)
Enterprise zone net interest deduction	283	(143)
Earnings from bank owned life insurance	(43)	(32)
Change in valuation allowance	301	165
Other, net	26	(66)
Total	$ 1,341	$ (4,646)

Year-end deferred tax assets and liabilities were due to the following:

	2010	2009
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 6,397	$ 6,099
Accrued liabilities	171	161
Lower of cost or market adjustment	6	6
State income taxes	105	21
Deferred compensation	266	197
Stock compensation	182	131
Real estate owned	141	95
Unrealized gain/loss on loans held for sale	527	409
State net operating loss carryforward	119	23
Nonaccrual loan interest	717	417
Other	4	-
Total deferred tax assets	8,635	7,559
Deferred tax liabilities:		
Basis difference on fixed assets	(28)	(83)
Deferred loan fees/costs	(1,743)	(1,312)
Net unrealized appreciation on available-for-sale securities	(176)	(118)
FHLB stock dividends	(581)	(644)
Mortgage servicing rights	(201)	(183)
Prepaid expenses	(30)	(27)
Total deferred tax liabilities	(2,759)	(2,367)
Valuation allowance	(507)	(206)
Net deferred tax assets (liability)	$ 5,369	$ 4,986

The increase in the Company s net deferred tax asset was primarily driven by significant increases in the temporary differences associated with the deductibility of the provision for loan losses and increases in the nonaccrual loan interest.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The Company has recorded a valuation allowance of $507 thousand at year-end 2010 related to the state net deferred tax asset as it does not anticipate having future state taxable income sufficient to fully utilize the net deferred state tax asset. No valuation allowance has been recorded against the federal net deferred tax asset as the Company believes it is more likely than not, based upon all available evidence including projected taxable income, that the net deferred federal tax asset will be realized.

Federal income tax laws previously allowed the Company additional bad debt deductions based on the reserve method of computing the federal bad debt deduction. This method of computing the Company s federal bad debt deduction was permitted to be used by the Company until the end of 1987. As of December 31, 1987, the tax bad debt reserve balance totaled $3.0 million. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total $1.0 million at year end 2010 and 2009. If the Bank were liquidated, or otherwise ceases to be a bank, or if tax laws were to change, this amount would be expensed.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2010	2009
	(In thousands)	
Balance at beginning of year	$ 91	$ 73
Additions based on tax positions related to the current year	107	34
Additions for tax positions of prior year	107	-
Reductions for tax positions of prior years	(4)	(16)
Settlements	(87)	-
Balance at end of year	$ 214	$ 91

Of this total, $214 thousand represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Company s continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During 2010 and 2009, there was no accrual for potential interest or penalties related to these unrecognized tax benefits.

The Company and its subsidiaries are subject to U.S. federal income tax as well as California income and franchise tax. Federal tax years 2007 through 2010 remain open for the assessment of tax. California tax years 2006 through 2010 remain open for the assessment of tax.

Note 13 Related Party Transactions

Loans to principal officers, directors, and their affiliates during 2010 were as follows:

	Amount (In thousands)
Beginning balance	$ 4,466
Repayments	(245)
Ending balance	$ 4,221

Deposits from principal officers, directors, and their affiliates at year-end 2010 and 2009 were $3.8 million and $2.8 million.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note 14 Stock-Based Compensation

The Company has two share based compensation plans as described below. Total compensation cost that has been charged against income for those plans was $132 thousand and $118 thousand for 2010 and 2009.

Stock Option Plans

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.

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

The fair value of options granted was determined using the following weighted average assumptions as of the grant date.

	2010	2009
Risk free interest rate	3.68%	2.71%
Expected term	10 years	10 years
Expected stock price volatility	102.91%	104.93%
Dividend yield	3.33%	4.17%

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

A summary of the activity in the plans for 2010 follows:

	1996 and 2008 LTIP		Stock Option Plan		Total	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding at January 1, 2010	222,515	$ 6.50	6,282	$ 8.13	228,797	$ 6.55
Granted	8,750	6.00	-	-	8,750	6.00
Forfeited or expired	(8,472)	4.34	(2,000)	4.34	(10,472)	4.34
Outstanding at December 31, 2010	222,793	$ 6.57	4,282	$ 9.91	227,075	$ 6.63
Vested or expected to vest	222,793	$ 6.57	4,282	$ 9.91	227,075	$ 6.63
Exercisable at December 31, 2010	126,793	$ 7.39	4,282	$ 9.91	131,075	$ 7.48

At December 31, 2010, options outstanding and options exercisable had a weighted average remaining contractual term of 6.49 years and 5.39 years, respectively. The aggregate intrinsic value of options outstanding and options exercisable was $-0- at December 31, 2010.

There were no options exercised during 2010 and 2009. As of December 31, 2010, there was $250 thousand of total unrecognized compensation cost related to nonvested stock options granted under the plans. The cost is expected to be recognized over a weighted average period of 3.0 years.

Share Award Plans

With the adoption of the 2008 LTIP, the Recognition and Retention Plan (RRP) and the Performance Equity Program (PEP), which provided for the issuance of shares to non-employee directors and certain officers and employees, were terminated and no further grants were made pursuant to the plans.

A summary of changes in the Company s nonvested PEP shares for the year follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2010	1,200	$ 10.25
Vested	(600)	10.25
Nonvested at December 31, 2010	600	$ 10.25

As of December 31, 2010, there was $6 thousand of total unrecognized compensation cost related to nonvested shares granted under the PEP Plan. The cost is expected to be recognized over a weighted average period of 0.4 year. The total fair value of shares vested for the PEP Plan during the years ended December 31, 2010 and 2009 was $6 thousand and $6 thousand.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note 15 Regulatory Capital Matters and Capital Purchase Program

Regulatory Capital Matters

The Bank is subject to regulatory capital requirements administered by the OTS, which 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 OTS. 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 09, 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 regulations.

We have met the minimums required to be well capitalized at December 31, 2010 and 2009 based on the prompt corrective action regulations, however we cannot be considered well capitalized due to our current regulatory agreement.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Actual and normally required capital amounts and ratios at December 31, 2010 and 2009, together with the higher capital requirements that the OTS required the Bank to meet, 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)							
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%
December 31, 2009:								
Tangible Capital to adjusted total assets	$ 34,797	6.69%	$ 7,803	1.50%	N/A	N/A	N/A	N/A
Tier 1 (Core) Capital to adjusted total assets	$ 34,797	6.69%	$ 20,809	4.00%	$ 26,011	5.00%	N/A	N/A
Tier 1 (Core) Capital to risk weighted assets	$ 34,797	8.91%	N/A	N/A	$ 23,443	6.00%	N/A	N/A
Total Capital to risk weighted assets	$ 39,806	10.19%	$ 31,257	8.00%	$ 39,072	10.00%	N/A	N/A

The Company s principal source of funds for dividend payments is dividends received from the Bank. OTS regulations limit the amount of dividends that may be paid by the Bank without prior approval of the OTS. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year s net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. Based on the above limitation, the Bank may not declare dividends during the year 2011 without OTS approval. There are additional dividend restrictions related to the Company s preferred stock purchase agreements with the U.S. Treasury as discussed below under Capital Purchase Program. Additionally, the cease and desist orders issued by the OTS effective September 09, 2010 have imposed certain limitations on the Company and the Bank. These limitations include the following, among others:

The Bank may not increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the prior quarter without the prior written notice to and receipt of notice of non-objection from the OTS Regional Director.

Neither the Company nor the Bank may declare or pay any dividends or make any other capital distributions without the prior written approval of the OTS Regional Director.

Neither the Company nor the Bank may make any changes in its directors or senior executive officers without prior notice to and receipt of notice of non-objection from the OTS.

The Company and the Bank are subject to limitations on severance and indemnification payments and on entering into or amending employment agreements and compensation arrangements, and on the payment of bonuses to Bank directors and officers.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The Company may not 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 OTS Regional Director.

The Bank is not permitted to increase the amount of its brokered deposits beyond the amount of interest credited without prior notice to and receipt of notice of non-objection from the OTS Regional Director.

Capital Purchase Program

On November 14, 2008, as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the Purchase Agreement) with the United States Department of the Treasury (the U.S. Treasury). Under the Purchase Agreement, the Company agreed to sell 9,000 shares of newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series D, par value $1 thousand per share and liquidation preference of $1 thousand per share (the Series D Preferred Stock), for a total price of $9.0 million. Cumulative dividends accrue on the Series D Preferred Stock at the rate of 5% per year for the first five years and 9% per year thereafter. The shares may be redeemed by the Company at any time, subject to regulatory approval.

On December 4, 2009, the Company entered into another Purchase Agreement with the U.S. Treasury, pursuant to which the Company sold 6,000 shares of newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series E, par value $1 thousand per share and liquidation preference of $1 thousand per share (the Series E Preferred Stock), for a total price of $6.0 million. Cumulative dividends accrue on the Series E Preferred Stock at the rate of 5% per year for the first five years and 9% per year thereafter. The shares may be redeemed by the Company at any time, subject to regulatory approval.

Pursuant to the terms of the Purchase Agreements, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its Common Stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share ($0.05) declared on the Common Stock prior to November 14, 2008. The redemption, purchase or other acquisition of trust preferred securities of the Company or its affiliates also are restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Preferred Stock or (b) the date on which the Preferred Stock has been redeemed in whole or the U.S. Treasury has transferred all of the Preferred Stock to third parties, except that, after the third anniversary of the date of issuance of the Preferred Stock, if the Preferred Stock remains outstanding at such time, the Company may not increase its common dividends per share without obtaining the consent of the U.S. Treasury.

The Purchase Agreement also subjects the Company to certain executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA). In this connection, as a condition to the closing of the transaction, the Company s Senior Executive Officers (as defined in the Purchase Agreement) (the Senior Executive Officers), (i) voluntarily waived any claim against the U.S. Treasury or the Company for any changes to such officer s compensation or benefits that are required to comply with the regulation issued by the U.S. Treasury under the TARP Capital Purchase Program and acknowledged that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements as they relate to the period the U.S. Treasury owns the Preferred Stock of the Company; and (ii) entered into a letter agreement with the Company amending the Benefit Plans with respect to such Senior Executive Officers as may be necessary, during the period that the U.S. Treasury owns the Preferred Stock of the Company, as necessary to comply with Section 111(b) of the EESA.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note 16 Loan Commitments and Other Related Activities

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	2010	2009
	(In thousands)	
Commitments to make loans	$ 382	$ 3,194
Unused lines of credit	8,810	11,670

Commitments to make loans are generally made for periods of 60 days or less. At year-end 2010, there were two loan commitments consisting of one to four-units residential loans with an average interest rate of 6.75%

Note 17 Parent Company Only Condensed Financial Information

Condensed financial information of Broadway Financial Corporation follows:

Condensed Balance Sheet

December 31,

	2010	2009
	(In thousands)	
Assets		
Cash and cash equivalents	$ 376	$ 1,832
Investment in bank subsidiary	43,429	35,690
Other assets	835	315
Total assets	$ 44,640	$ 37,837
Liabilities and stockholders equity		
Junior subordinated debentures	$ 6,000	$ 6,000
Other borrowings	5,000	-
Other liabilities	780	322
Stockholders equity	32,860	31,515
Total liabilities and stockholders equity	$ 44,640	$ 37,837

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Condensed Statements of Operations

Years ended December 31,

	2010	2009
	(In thousands)	
Interest income	$ 2	$ 49
Interest expense	433	236
Other expense	609	521
Loss before income tax and undistributed subsidiary income (loss)	(1,040)	(708)
Income taxes benefit	427	283
Equity in undistributed subsidiary income (loss)	2,528	(6,034)
Net earnings (loss)	$ 1,915	$ (6,459)

Condensed Statements of Cash Flows

Years ended December 31,

	2010	2009
	(In thousands)	
Cash flows from operating activities		
Net earnings (loss)	$ 1,915	$ (6,459)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Equity in undistributed subsidiary (income) loss	(2,528)	6,034
Change in other assets	(520)	111
Change in other liabilities	198	41
Net cash used in operating activities	(935)	(273)
Cash flows from investing activities		
Investment in bank subsidiary	(5,000)	(8,000)
Net cash used in investing activities	(5,000)	(8,000)
Cash flows from financing activities		
Net increase in other borrowings	5,000	-
Proceeds from issuance of preferred stock	-	5,974
Reissuance of treasury stock	6	6
Cash dividends paid	(527)	(951)
Net cash provided by financing activities	4,479	5,029

Net change in cash and cash equivalents	(1,456)	(3,244)
Beginning cash and cash equivalents	1,832	5,076
Ending cash and cash equivalents	$ 376	$ 1,832

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note 18 Earnings (Loss) Per Common Share

The factors used in the earnings (loss) per common share computation follow:

	2010	2009
	(Dollars in thousands, except share and per share)	
Basic		
Net earnings (loss)	$ 1,915	$ (6,459)
Less: Preferred stock dividends and accretion	(1,145)	(749)
Earnings (loss) available to common stockholders	$ 770	$ (7,208)
Weighted average common shares outstanding	1,743,728	1,743,127
Basic earnings (loss) per common share	$ 0.44	$ (4.14)
Diluted		
Net earnings (loss)	$ 1,915	$ (6,459)
Less: Preferred stock dividends and accretion	(1,145)	(749)
Earnings (loss) available to common stockholders	$ 770	$ (7,208)
Weighted average common shares outstanding for basic earnings per common share	1,743,728	1,743,127
Add: dilutive effects of assumed exercises of stock options	831	N/A
Average shares and dilutive potential common shares	1,744,559	1,743,127
Diluted earnings (loss) per common share	$ 0.44	$ (4.14)

Stock options for 227,000 and 196,000 shares of common stock were not considered in computing diluted earnings per common share for 2010 and 2009 because they were anti-dilutive.