

BROADWAY FINANCIAL CORP \DE\  
Form 10QSB  
August 10, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

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**FORM 10-QSB**

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(Mark One)

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

For the quarterly period ended June 30, 2007

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27464

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**BROADWAY FINANCIAL CORPORATION**

(Exact name of small business issuer as specified in its charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**95-4547287**

(I.R.S. Employer Identification No.)

**4800 Wilshire Boulevard, Los Angeles, California 90010**

(Address of principal executive offices)

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(323) 634-1700

(Issuer's telephone number, including area code)

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,692,257 shares of the Company's Common Stock, par value \$0.01 per share, were outstanding as of July 31, 2007.

Transitional Small Business Disclosure Format (Check one): Yes  No

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**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets**

	June 30,	
	2007 (Unaudited)	December 31, 2006
	<i>(Dollars in thousands)</i>	
<b>Assets</b>		
Cash	\$ 4,578	\$ 5,310
Securities available for sale	4,852	
Securities held to maturity (fair value of \$31,523 at June 30, 2007 and \$35,174 at December 31, 2006)	31,969	35,793
Loans receivable held for sale, at lower of cost or fair value	2,498	
Loans receivable, net of allowance of \$1,914 and \$1,730	261,470	247,657
Accrued interest receivable	1,606	1,476
Federal Home Loan Bank (FHLB) stock, at cost	2,773	2,490
Office properties and equipment, net	5,305	5,263
Bank owned life insurance	2,187	2,138
Other assets	573	868
<b>Total assets</b>	<b>\$ 317,811</b>	<b>\$ 300,995</b>
<b>Liabilities and stockholders equity</b>		
Deposits	\$ 229,047	\$ 221,467
Federal Home Loan Bank advances	58,600	49,985
Junior subordinated debentures	6,000	6,000
Advance payments by borrowers for taxes and insurance	491	588
Deferred income taxes	809	855
Other liabilities	1,938	2,075
<b>Total liabilities</b>	<b>296,885</b>	<b>280,970</b>
<b>Stockholders Equity:</b>		
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 June 30, 2007 and December 31, 2006; liquidation preference of \$552 for Series A and \$1,000 for Series B and C at June 30, 2007 and December 31, 2006	2	2
Common stock, \$.01 par value, authorized 3,000,000 shares; issued 2,013,942 shares at June 30, 2007 and December 31, 2006; outstanding 1,691,606 shares at June 30, 2007 and 1,637,415 shares at December 31, 2006	20	20
Additional paid-in capital	12,624	12,829
Accumulated other comprehensive loss, net of taxes	(69)	
Retained earnings-substantially restricted	12,625	12,169
Treasury stock-at cost, 322,336 shares at June 30, 2007 and 376,527 shares at December 31, 2006	(4,276)	(4,995)
<b>Total stockholders equity</b>	<b>20,926</b>	<b>20,025</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 317,811</b>	<b>\$ 300,995</b>

*See accompanying notes to unaudited consolidated financial statements.*



**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Statements of Operations and Comprehensive Earnings****(Unaudited)**

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2006	
	2007	2006	2007	2006
	<i>(Dollars in thousands, except per share amounts)</i>			
Interest and fees on loans receivable	\$ 4,570	\$ 3,738	\$ 8,975	\$ 7,291
Interest on mortgage-backed securities	416	430	817	896
Interest on investment securities	25	18	50	36
Other interest income	78	97	162	191
<b>Total interest income</b>	<b>5,089</b>	<b>4,283</b>	<b>10,004</b>	<b>8,414</b>
Interest on deposits	1,730	1,285	3,338	2,474
Interest on borrowings	647	542	1,237	1,105
<b>Total interest expense</b>	<b>2,377</b>	<b>1,827</b>	<b>4,575</b>	<b>3,579</b>
Net interest income before provision for loan losses	2,712	2,456	5,429	4,835
Provision for loan losses	164	49	184	49
<b>Net interest income after provision for loan losses</b>	<b>2,548</b>	<b>2,407</b>	<b>5,245</b>	<b>4,786</b>
Non-interest income:				
Service charges	284	228	559	459
Gain on sale of loans held for sale	9		15	
Gain (loss) on sale of securities	(1)		(1)	12
Other	31	53	67	75
<b>Total non-interest income</b>	<b>323</b>	<b>281</b>	<b>640</b>	<b>546</b>
Non-interest expense:				
Compensation and benefits	1,391	1,223	2,819	2,437
Occupancy expense, net	276	309	536	619
Information services	173	153	334	304
Professional services	171	146	316	225
Office services and supplies	137	122	254	226
Other	352	163	542	303
<b>Total non-interest expense</b>	<b>2,500</b>	<b>2,116</b>	<b>4,801</b>	<b>4,114</b>
Earnings before income taxes	371	572	1,084	1,218
Income taxes	129	228	398	486
<b>Net earnings</b>	<b>\$ 242</b>	<b>\$ 344</b>	<b>\$ 686</b>	<b>\$ 732</b>
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities available for sale	\$ (108)	\$	\$ (115)	\$

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Income tax effect	43		46	
Other comprehensive income (loss), net of tax	(65)		(69)	
Comprehensive earnings	\$ 177	\$ 344	\$ 617	\$ 732
Net earnings	\$ 242	\$ 344	\$ 686	\$ 732
Dividends paid on preferred stock	(32)	(29)	(64)	(49)
Earnings available to common shareholders	\$ 210	\$ 315	\$ 622	\$ 683
Earnings per share-basic	\$ 0.13	\$ 0.20	\$ 0.38	\$ 0.44
Earnings per share-diluted	\$ 0.12	\$ 0.19	\$ 0.35	\$ 0.41
Dividends declared per share-common stock	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
	<i>(Dollars in thousands)</i>	
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 686	\$ 732
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation	155	169
Net amortization (accretion) of premiums (discounts) on loans purchased	18	19
Net amortization of deferred loan origination costs (fees)	40	20
Net amortization of premiums on mortgage-backed securities	34	71
Stock-based compensation expense	59	52
(Gain) loss on sale of securities	1	(12)
Gain on sale of loans held for sale	(15)	
Net increase in cash surrender value of bank owned life insurance	(49)	
FHLB stock dividends	(68)	(78)
Provision for loan losses	184	49
Loans receivable originated for sale	(5,500)	
Proceeds from sale of loans receivable held for sale	3,017	
Changes in operating assets and liabilities:		
Accrued interest receivable	(130)	13
Other assets	295	(102)
Deferred income taxes		68
Other liabilities	(137)	(152)
Net cash (used in) provided by operating activities	(1,410)	849
<b>Cash flows from investing activities:</b>		
Net change in loans receivable	(14,055)	8,631
Purchase of loans receivable		(9,537)
Purchases of mortgage-backed securities available for sale	(5,161)	
Proceeds from sale of mortgage-backed securities held-to-maturity	344	451
Principal repayments on mortgage-backed securities available for sale	194	
Principal repayments on mortgage-backed securities held-to-maturity	3,445	4,540
Purchase of Federal Home Loan Bank stock	(215)	
Proceeds from redemption of Federal Home Loan Bank stock		571
Capital expenditures for office properties and equipment	(197)	(86)
Net cash (used in) provided by investing activities	(15,645)	4,570
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	7,580	(1,831)
Advances from the Federal Home Loan Bank	17,600	13,800
Principal repayments on advances from the Federal Home Loan Bank	(8,985)	(22,483)
Preferred stock issued		962
Common stock issued		1,648
Common and Preferred dividends paid	(230)	(209)
Reissuance of treasury stock	19	5
Purchases of treasury stock		(929)
Stock options exercised, net of tax benefits	436	



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Change in advance payments by borrowers for taxes and insurance	(97)	(10)
Net cash provided by (used in) financing activities	16,323	(9,047)
Net decrease in cash	(732)	(3,628)
Cash at beginning of period	5,310	9,786
Cash at end of period	\$ 4,578	\$ 6,158
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 4,504	\$ 3,264
Cash paid for income taxes	\$ 798	\$ 585

*See accompanying notes to unaudited consolidated financial statements.*

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**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**June 30, 2007**

**NOTE (1) Basis of Financial Statement Presentation**

The unaudited consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and pursuant to the instructions for Form 10-QSB and the rules and regulations of the Securities and Exchange Commission. In the opinion of the management of Broadway Financial Corporation (the Company), the preceding unaudited consolidated financial statements contain all material adjustments, consisting solely of normal recurring entries, necessary to present fairly the consolidated financial position of the Company and its subsidiaries at June 30, 2007 and December 31, 2006, the results of their operations and comprehensive earnings for the three and six months ended June 30, 2007 and 2006 and their cash flows for the six months ended June 30, 2007 and 2006. These unaudited consolidated financial statements do not include all disclosures associated with the Company's consolidated annual financial statements included in its annual report on Form 10-KSB for the year ended December 31, 2006 and, accordingly, should be read in conjunction with such audited consolidated financial statements. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year. Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation.

**NOTE (2) Earnings Per Share**

Basic earnings per common share is determined by dividing net earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period (1,654,028 and 1,561,213 shares for the three months ended June 30, 2007 and 2006, and 1,645,779 and 1,557,946 shares for the six months ended June 30, 2007 and 2006, respectively). Diluted earnings per common share is determined by dividing net earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period, adjusted for the dilutive effect of Common Stock equivalents (1,787,105 and 1,701,864 shares for the three months ended June 30, 2007 and 2006, and 1,781,442 and 1,665,161 shares for the six months ended June 30, 2007 and 2006, respectively).

**NOTE (3) Recent Accounting Pronouncements**

**FIN 48** In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition and measurement threshold for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The impact of adopting FIN 48 is discussed in Note 4 to the consolidated financial statements.

**SFAS No. 157** In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting standards, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not completed its evaluation of the impact of the adoption of SFAS 157.

**SFAS No. 159** In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. The Company has not completed its evaluation of the impact of the adoption of SFAS 159.



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**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements (continued)**

**June 30, 2007**

**NOTE (4) Income Taxes**

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ), on January 1, 2007. 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. No cumulative effect of a change in accounting principle or adjustment to the liability for unrecognized tax benefit was recognized as a result of the adoption of FIN 48.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of California. The Company is no longer subject to examination by federal taxing authorities for years before 2003 and by state taxing authorities for years before 2002. The Company does not expect the total amount of unrecognized tax benefits to materially change in the next twelve months.

The Company recognizes interest and penalties related to income tax matters in income tax expense. The Company has accrued \$56,000 including \$8,000 for potential interest and penalties as of June 30, 2007 and December 31, 2006 for uncertainties related to income taxes related to the California loan enterprise zone loan interest deduction taken in prior years. Of this total, \$56,000 represents the amount of unrecognized tax benefits at June 30, 2007 and December 31, 2006 that if recognized would favorably affect the Company's effective tax rate.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS**

**Forward-Looking Statements**

Certain matters discussed in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Company operates, projections of future performance, perceived opportunities in the market, and statements regarding strategic objectives. These forward-looking statements are based upon current management expectations, and involve risks and uncertainties. Actual results or performance may differ materially from those suggested, expressed, or implied by forward-looking statements due to a wide range of factors including, but not limited to, the general business environment, the real estate market, competitive conditions in the business and geographic areas in which the Company conducts its business, regulatory actions or changes and other risks detailed in the Company's reports filed with the Securities and Exchange Commission, including the Company's Annual Reports on Form 10-KSB and Quarterly Reports on Form 10-QSB.

**General**

Broadway Financial Corporation (the Company) is primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (Broadway Federal or the Bank). Broadway Federal is a community-oriented savings institution dedicated to serving the African-American, Hispanic and other communities of Mid-City and South Los Angeles, California. Broadway Federal'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 non-residential real estate located in Southern California. At June 30, 2007, Broadway Federal operated four retail-banking offices in Mid-City and South Los Angeles and two loan production offices in Irvine and Torrance. Broadway Federal is subject to significant competition from other financial institutions, and is also subject to regulation by federal agencies and undergoes periodic examinations by those regulatory agencies.

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

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The Company's principal business is serving as a holding company for Broadway Federal. The Company's results of operations are dependent primarily on Broadway Federal's net interest income, which is the difference between the interest income earned on its interest-earning assets, such as loans and investments, and the interest expense paid on its interest-bearing liabilities, such as deposits and borrowings. Broadway Federal also generates recurring non-interest income, such as transactional fees on its loan and deposit portfolios. The Company's operating results are affected by the amount of provisions for loan losses and the Bank's non-interest expenses, which consist principally of employee compensation and benefits, occupancy expenses, and technology and communication costs. More generally, the results of operations of thrift and banking institutions are also affected by prevailing economic conditions, competition, and the monetary and fiscal policies of governmental agencies.

**Results of Operations***Net Earnings*

Net earnings for the second quarter of 2007 were \$242,000, or \$0.12 per diluted share, down \$102,000, or 29.65%, when compared with net earnings of \$344,000, or \$0.19 per diluted share, in the second quarter of 2006. The decrease in net earnings was the result of a substantial increase in our provision for loan losses and non-interest expense, partially offset by increases in net interest income before provision for loan losses and non-interest income.

For the first half of 2007, net earnings totaled \$686,000, or \$0.35 per diluted share, down \$46,000, or 6.28%, when compared with net earnings of \$732,000, or \$0.41 per diluted share, for the first half of 2006.

*Net Interest Income*

Net interest income before provision for loan losses of \$2.7 million in the second quarter of 2007 was up \$256,000, or 10.42%, from the second quarter a year ago. The increase reflected a higher level of average interest-earning assets and improved net interest margin. Interest-earning assets averaged \$297.7 million in the current quarter, up \$19.5 million, or 7.00%, from the same period a year ago. Annualized net interest rate margin improved 11 basis points to 3.64% in the current quarter from 3.53% a year ago. The annualized net interest rate spread improved 10 basis points to 3.49% in the current quarter from 3.39% a year ago. The overall annualized yield on average interest-earning assets increased 68 basis points to 6.84% in the current quarter from 6.16% a year ago, primarily as a result of the origination of higher yielding loans and the upward repricing of adjustable rate mortgage loans. The annualized yield on average loans improved 66 basis points to 7.21% in the second quarter of 2007 from 6.55% for the same period in 2006. The cost of average interest-bearing liabilities increased 59 basis points to 3.35% as our deposit mix shifted toward higher costing time deposits and our use of overnight FHLB borrowings increased. Most of the increase in interest expense was in interest-bearing time deposits, where average balances increased \$18.0 million, or 16.51%, to \$127.0 million for the second quarter of 2007, compared to \$109.0 million for the same period in 2006. The cost of average deposits increased 60 basis points to 3.07% in the second quarter of 2007 from 2.47% for the same period in 2006. The primary spread (weighted average interest rate on loans minus weighted average interest rate on deposits) for the second quarter of 2007 was 4.14% compared to 4.08% for the second quarter of 2006.

For the first half of 2007, net interest income before provision for loan losses totaled \$5.4 million, up \$594,000, or 12.29%, from a year ago, primarily reflecting increased average interest-earning assets and higher net interest rate margin.

*Provision for Loan Losses*

During the second quarter of 2007, the provision for loan losses amounted to \$164,000 compared to \$49,000 a year ago. The \$164,000 of loan loss provision was primarily due to increased loan originations/volume as there have been no net charge-offs during the first six months of 2007.

For the first half of 2007, the provision for loan losses totaled \$184,000 compared to \$49,000 of provision in the year-ago period.

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### *Non-interest Income*

Non-interest income totaled \$323,000 in the second quarter of 2007, up \$42,000, or 14.95%, from the second quarter a year ago. The increase was primarily due to higher retail banking fees in the second quarter of 2007 compared to the same quarter in 2006.

For the first half of 2007, non-interest income totaled \$640,000, up \$94,000, or 17.22%, from a year ago. The increase primarily reflected higher service charge income.

### *Non-interest Expense*

Non-interest expense totaled \$2.5 million in the second quarter of 2007, up \$384,000, or 18.15%, from the second quarter a year ago. A large portion of the increase was in compensation and benefits expense, which increased \$168,000, in the second quarter of 2007 compared to the same quarter in 2006. Approximately \$113,000 of the increase in compensation and benefits related to annual pay increases and the addition of experienced management and staff in the latter half of 2006. Other significant increases in non-interest expense between second quarters include a \$25,000 increase in professional services expense, of which \$17,000 was due to higher legal expenses, and a \$189,000 increase in other expense, primarily due to a \$125,000 expense in the second quarter of 2007 to settle a personnel matter and increases in donations, sponsorships, promotion and losses on checking accounts.

For the first half of 2007, non-interest expense totaled \$4.8 million, up \$687,000, or 16.70%, from a year ago, primarily reflecting higher compensation and benefits expense, professional services expense and other expense.

### **Income Taxes**

The Company's effective tax rate was 34.77% for the second quarter 2007 compared to 39.86% for the second quarter 2006. Income taxes are computed by applying the statutory federal income tax rate of 34.00% and the California income tax rate of 10.84% to earnings before income taxes.

### **Financial Condition**

#### *Assets, Loan Originations, Deposits and FHLB Advances*

At June 30, 2007, assets totaled \$317.8 million, up \$16.8 million, or 5.59%, from year-end 2006. During the first half of 2007, net loans, including loans held for sale, increased \$16.3 million and securities available for sale increased \$4.9 million, while securities held to maturity decreased \$3.8 million and cash and cash equivalents decreased \$0.7 million. Loan originations, including purchases, for the six months ended June 30, 2007 totaled \$53.5 million, up \$20.3 million, or 61.14%, from \$33.2 million a year ago. The strong growth in loan originations was tempered by a high level of loan repayments, including loan sales, which amounted to \$36.8 million for the six months ended June 30, 2007 compared to \$32.3 million for the same period a year ago.

Deposits totaled \$229.0 million at June 30, 2007, up \$7.6 million, or 3.42%, from year-end 2006. During the first half of 2007, our certificates of deposit increased \$11.9 million while our core deposits (NOW, demand, money market and passbook accounts) decreased \$4.3 million. A substantial portion of the increase in certificates of deposit was from brokered deposits. At June 30, 2007, core deposits represented 41.74% of total deposits compared to 45.11% at December 31, 2006 and 47.08% at June 30, 2006.

Since the end of 2006, FHLB borrowings increased \$8.6 million, or 17.24%, to \$58.6 million at June 30, 2007 from \$50.0 million at December 31, 2006, primarily due to strong loan growth financing needs.

#### *Allowance for Loan Losses*

At June 30, 2007, the allowance for loan losses was \$1.9 million, or 0.73% of total gross loans receivable, compared to \$1.7 million, or 0.69% of total gross loans receivable, at year-end 2006.

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Management believes that the allowance for loan losses is adequate to cover probable incurred losses in Broadway Federal's loan portfolio as of June 30, 2007, but there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation periodically review Broadway Federal's allowance for loan losses as an integral part of their examination process. These agencies may require Broadway Federal to increase the allowance for loan losses based on their judgments of the information available to them at the time of their examination.

### *Non-Performing Assets*

Non-performing assets, consisting of non-accrual and delinquent loans 90 or more days past due, totaled \$477,000 at June 30, 2007 compared to \$34,000 at December 31, 2006, or 0.15% and 0.01% of total assets, at those respective dates. Non-accrual loans at June 30, 2007 consisted of a single-family loan, a church loan and an unsecured consumer loan. At June 30, 2007 and December 31, 2006, the Bank had no loans in foreclosure or REO (real estate owned) properties.

### *Performance Ratios*

For the quarter ended June 30, 2007, the Company's annualized return on average equity decreased to 4.69% compared to 7.50% for the same period in 2006. Contributing to the decrease in the annualized return on average equity are lower net earnings this quarter and the sale of 145,000 shares of the Company's Common Stock to Cathay General Bancorp in May 2006 which resulted in higher average equity for the second quarter of 2007 than in the second quarter of 2006. The annualized return on average assets decreased to 0.31% for the second quarter of 2007 compared to 0.48% for the same period in 2006. The efficiency ratio increased to 82.37% for the second quarter of 2007 compared to 77.31% for the same period in 2006. Our annualized return on average assets and efficiency ratio were negatively impacted by the substantial increase in our provision for loan losses and non-interest expense.

## **Liquidity, Capital Resources and Market Risk**

Sources of liquidity and capital for the Company on a stand-alone basis include distributions from the Bank and the issuance of equity and debt securities, such as the preferred stock issued in 2002 and in the second quarter of 2006, the junior subordinated debentures issued during the first quarter of 2004 and the sale of 70,000 shares of common stock to Cathay General Bancorp during the second quarter of 2004 and 145,000 shares of common stock during the second quarter of 2006. Dividends and other capital distributions from the Bank are subject to regulatory restrictions.

The Bank's primary sources of funds are deposits, principal and interest payments on loans and securities, Federal Home Loan Bank advances, and to a lesser extent, proceeds from the sale of loans and securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan and security prepayments are greatly influenced by the general level of interest rates, economic conditions and competition.

Since December 31, 2006, there has been no material change in the Company's interest rate sensitivity. For a discussion on the Company's interest rate sensitivity and market risk, see the Company's annual report on Form 10-KSB for the year ended December 31, 2006, including the Company's audited consolidated financial statements and the notes thereto.

## **Regulatory Capital**

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

Broadway Federal was in compliance with all capital requirements in effect at June 30, 2007, and met all standards necessary to be considered well-capitalized under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).





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The following table reflects the required and actual regulatory capital ratios of Broadway Federal at the date indicated:

<b>Regulatory Capital Ratios For Broadway Federal</b>	<b>OTS Minimum Requirement</b>	<b>FDICIA Well-capitalized Requirement</b>	<b>Actual at June 30, 2007</b>
Tangible ratio	1.50%	N/A	7.85%
Leverage ratio	4.00%	5.00%	7.85%
Tier 1 Risk-based ratio	4.00%	6.00%	10.43%
Total Risk-based ratio	8.00%	10.00%	11.22%

**ITEM 3. CONTROLS AND PROCEDURES**

As of June 30, 2007, an evaluation was performed under the supervision of the Company's Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of June 30, 2007. There were no significant changes in the Company's internal controls over financial reporting or in other factors during the Company's last fiscal quarter that could significantly affect these controls subsequent to June 30, 2007.

**Table of Contents****PART II. OTHER INFORMATION**

Item 1. LEGAL PROCEEDINGS  
None

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS  
None

Item 3. DEFAULTS UPON SENIOR SECURITIES  
None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS  
The Annual Meeting of Stockholders of the Company was held on June 20, 2007 for the following purposes:

(a) To elect three directors to serve until the Annual Meeting to be held in the year 2010 and until their successors are elected and have been qualified.

At the meeting, the stockholders re-elected Robert C. Davidson, Jr., Javier León and Elrick Williams to serve as directors for three-year terms. The number of votes for each of the directors was as follows:

Mr. Robert C. Davidson, Jr.	
For	1,426,460
Against	0
Abstain	11,348
Mr. Javier León	
For	1,426,460
Against	0
Abstain	11,348
Mr. Elrick Williams	
For	1,426,460
Against	0
Abstain	11,348

(b) To ratify the appointment of Crowe Chizek and Company LLP as the Company's independent auditors for 2007.

At the meeting, the stockholders ratified the appointment of Crowe Chizek and Company LLP as the Company's independent auditors based upon 1,433,211 shares voting for, 3,375 shares voting against and 1,222 shares abstaining.

Item 5. OTHER INFORMATION  
None



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Item 6. EXHIBITS

Exhibit 31.1 CEO Certification pursuant to Rules 13a-14 or 15d-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 CFO Certification pursuant to Rules 13a-14 or 15d-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

Date: August 10, 2007

By: /s/ Paul C. Hudson  
Paul C. Hudson

Chief Executive Officer

Broadway Financial Corporation

Date: August 10, 2007

By: /s/ Samuel Sarpong  
Samuel Sarpong

Chief Financial Officer

Broadway Financial Corporation