

BROADWAY FINANCIAL CORP \DE\

Form 10-Q

October 01, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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

For transition period from to

Commission file number 000-27464

BROADWAY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-4547287 (I.R.S. Employer Identification No.)
4800 Wilshire Boulevard, Los Angeles, California (Address of principal executive offices)	90010 (Zip Code)
(323) 634-1700 (Registrant's telephone number, including area code)	

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

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

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 1,744,565 shares of the Company's Common Stock, par value \$0.01 per share, were outstanding as of September 6, 2012.

Table of Contents**TABLE OF CONTENTS**

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of June 30, 2012 (unaudited) and December 31, 2011</u>	1
<u>Consolidated Statements of Operations and Comprehensive Earnings (Loss) (unaudited) for the three and six months ended June 30, 2012 and 2011</u>	2
<u>Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2012 and 2011</u>	3
<u>Notes to Unaudited Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	33
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 3. <u>Defaults Upon Senior Securities</u>	34
Item 4. <u>Mine Safety Disclosures</u>	34
Item 5. <u>Other Information</u>	34
Item 6. <u>Exhibits</u>	34
<u>Signatures</u>	35
Ex 31.1 Section 302 Certification of CEO	
Ex 31.2 Section 302 Certification of CFO	
Ex 32 Section 906 Certifications of CEO and CFO	

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

	June 30, 2012 (Unaudited)	December 31, 2011
	<i>(Dollars in thousands, except per share amounts)</i>	
Assets		
Cash	\$ 14,596	\$ 12,127
Federal funds sold	31,540	19,470
Cash and cash equivalents	46,136	31,597
Securities available-for-sale, at fair value	15,705	18,979
Loans receivable held for sale, net	12,574	12,983
Loans receivable, net of allowance of \$17,856 and \$17,299	295,363	322,770
Accrued interest receivable	1,476	1,698
Federal Home Loan Bank (FHLB) stock, at cost	3,901	4,089
Office properties and equipment, net	2,772	4,626
Real estate owned	3,530	6,699
Bank owned life insurance	2,649	2,609
Investment in affordable housing limited partnership	1,586	1,675
Deferred tax assets		850
Other assets	5,239	5,162
Total assets	\$ 390,931	\$ 413,737
Liabilities and shareholders equity		
Deposits	\$ 270,047	\$ 294,686
Federal Home Loan Bank advances	83,000	83,000
Junior subordinated debentures	6,000	6,000
Other borrowings	5,000	5,000
Advance payments by borrowers for taxes and insurance	705	813
Other liabilities	6,516	5,962
Total liabilities	371,268	395,461
Shareholders Equity:		
Senior preferred cumulative and non-voting stock, \$.01 par value, authorized, issued and outstanding 9,000 shares of Series D at June 30, 2012 and December 31, 2011; liquidation preference of \$9,956 at June 30, 2012 and \$9,731 at December 31, 2011	8,963	8,963
Senior preferred cumulative and non-voting stock, \$.01 par value, authorized, issued and outstanding 6,000 shares of Series E at June 30, 2012 and December 31, 2011; liquidation preference of \$6,638 at June 30, 2012 and \$6,488 at December 31, 2011	5,974	5,974
Preferred non-cumulative and non-voting stock, \$.01 par value, authorized 985,000 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, 2012 and December 31, 2011; liquidation preference of \$552 for Series A, \$1,000 for Series B and \$1,000 for Series C at June 30, 2012 and December 31, 2011	3,657	3,657
Preferred stock discount	(798)	(994)
Common stock, \$.01 par value, authorized 8,000,000 shares at June 30, 2012 and December 31, 2011; issued 2,013,942 shares at June 30, 2012 and December 31, 2011; outstanding 1,744,565 shares at June 30, 2012 and December 31, 2011	20	20
Additional paid-in capital	10,864	10,824
Accumulated deficit	(6,015)	(7,295)

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Accumulated other comprehensive income, net of taxes of \$400 at June 30, 2012 and December 31, 2011	442	571
Treasury stock-at cost, 269,377 shares at June 30, 2012 and December 31, 2011	(3,444)	(3,444)
Total shareholders equity	19,663	18,276
Total liabilities and shareholders equity	\$ 390,931	\$ 413,737

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	<i>(Dollars in thousands, except per share amounts)</i>			
Interest and fees on loans receivable	\$ 5,030	\$ 6,284	\$ 10,360	\$ 12,668
Interest on mortgage backed and other securities	135	182	283	363
Other interest income	20	10	36	19
Total interest income	5,185	6,476	10,679	13,050
Interest on deposits	880	1,197	1,855	2,436
Interest on borrowings	815	851	1,648	1,840
Total interest expense	1,695	2,048	3,503	4,276
Net interest income before provision for loan losses	3,490	4,428	7,176	8,774
Provision for loan losses	102	3,434	1,061	4,674
Net interest income after provision for loan losses	3,388	994	6,115	4,100
Non-interest income:				
Service charges	143	175	296	357
Net gains (losses) on mortgage banking activities	4	32	(162)	7
Net gains (losses) on sales of REO	(17)	(34)	395	(49)
Gain on sale of office properties and equipment	2,523		2,523	
Gain on sale of securities	50		50	
Other	21	26	45	65
Total non-interest income	2,724	199	3,147	380
Non-interest expense:				
Compensation and benefits	1,538	1,555	3,127	3,364
Occupancy expense, net	297	334	584	688
Information services	239	220	452	447
Professional services	176	292	284	460
Provision for losses on loans held-for-sale	188	6	186	26
Provision for losses on REO	331	702	312	782
FDIC insurance	216	354	433	637
Office services and supplies	108	140	217	282
Other	550	514	969	933
Total non-interest expense	3,643	4,117	6,564	7,619
Earnings (loss) before income taxes	2,469	(2,924)	2,698	(3,139)
Income tax expense (benefit)	772	(1,202)	847	(1,288)
Net earnings (loss)	\$ 1,697	\$ (1,722)	\$ 1,851	\$ (1,851)

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Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities available for sale	\$ (86)	\$ 86	\$ (79)	\$ 71
Reclassification of net gains included in net earnings	(50)		(50)	
Income tax effect		(34)		(28)
Other comprehensive income (loss), net of tax	(136)	52	(129)	43
Comprehensive earnings (loss)	\$ 1,561	\$ (1,670)	\$ 1,722	\$ (1,808)
Net earnings (loss)	\$ 1,697	\$ (1,722)	\$ 1,851	\$ (1,851)
Dividends and discount accretion on preferred stock	(285)	(283)	(571)	(566)
Earnings (loss) available to common shareholders	\$ 1,412	\$ (2,005)	\$ 1,280	\$ (2,417)
Earnings (loss) per common share-basic	\$ 0.81	\$ (1.15)	\$ 0.73	\$ (1.39)
Earnings (loss) per common share-diluted	\$ 0.81	\$ (1.15)	\$ 0.73	\$ (1.39)
Dividends declared per share-common stock	\$	\$	\$	\$

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2012	2011
	<i>(Dollars in thousands)</i>	
Cash flows from operating activities:		
Net earnings (loss)	\$ 1,851	\$ (1,851)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Provision for loan losses	1,061	4,674
Provision for losses on loans receivable held-for-sale	186	26
Provision for losses on REO	312	782
Depreciation	149	206
Net amortization of deferred loan origination (fees) costs	58	20
Net amortization of premiums on mortgage-backed securities	31	59
Amortization of investment in affordable housing limited partnership	89	
Stock-based compensation expense	40	45
Earnings on bank owned life insurance	(40)	(44)
Gain on sale of office properties and equipment	(2,523)	
Gain on sale of securities	(50)	
Net (gains) losses on sales of REO	(395)	49
Net (gains) losses on sales of loans		(11)
Net change in:		
Accrued interest receivable	222	259
Deferred tax assets	850	(767)
Other assets	(77)	(1,543)
Other liabilities	279	790
Net cash provided by operating activities	2,043	2,694
Cash flows from investing activities:		
Net change in loans receivable	23,626	10,136
Proceeds from sales and principal repayments of loans receivable held-for-sale	223	14,243
Available-for-sale securities:		
Sales, maturities, prepayments and calls	3,164	1,367
Held-to-maturity securities:		
Maturities, prepayments and calls		1,042
Proceeds from sales of REO	5,914	2,305
Investment in affordable housing limited partnership	(100)	(286)
Net redemption of Federal Home Loan Bank stock	188	
Proceeds from sale of office properties and equipment	4,237	
Additions to office properties and equipment	(9)	(21)
Net cash provided by investing activities	37,243	28,786
Cash flows from financing activities:		
Net change in deposits	(24,639)	(36,074)
Proceeds from FHLB advances	13,500	7,000
Repayments on FHLB advances	(13,500)	(7,000)
Reissuance of treasury stock		6
Net change in advance payments by borrowers for taxes and insurance	(108)	471

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Net cash used in financing activities	(24,747)	(35,597)
Net change in cash and cash equivalents	14,539	(4,117)
Cash and cash equivalents at beginning of period	31,597	21,978
Cash and cash equivalents at end of period	\$ 46,136	\$ 17,861
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3,142	\$ 3,912
Cash paid for income taxes	\$	\$ 865
Supplemental disclosures of non-cash investing and financing activities:		
Transfers of loans receivable to REO	\$ 2,662	\$ 6,414
Transfers of loans receivable held-for-sale to REO	\$	\$ 266
Transfers of loans receivable held-for-sale to other assets	\$	\$

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

June 30, 2012

NOTE (1) Basis of Financial Statement Presentation

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

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for quarterly reports on Form 10-Q. These unaudited consolidated financial statements do not include all disclosures associated with the Company's consolidated annual financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2011 and, accordingly, should be read in conjunction with such audited consolidated financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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

NOTE (2) Recently Issued Accounting Pronouncements

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. Early adoption is permitted. The adoption of this amendment had no impact on the Company's consolidated financial statements as the prior presentation of comprehensive income was in compliance with this amendment.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012****NOTE (3) Earnings (Loss) Per Common Share**

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

The following table shows how the Company computed basic and diluted earnings (loss) per common share for the three and six months ended June 30, 2012 and 2011.

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands, except per share)			
Basic				
Net earnings (loss)	\$ 1,697	\$ (1,722)	\$ 1,851	\$ (1,851)
Less: Preferred stock dividends and accretion	(285)	(283)	(571)	(566)
Earnings (loss) available to common shareholders	\$ 1,412	\$ (2,005)	\$ 1,280	\$ (2,417)
Weighted average common shares outstanding	1,744,565	1,744,216	1,744,565	1,744,091
Basic earnings (loss) per common share	\$ 0.81	\$ (1.15)	\$ 0.73	\$ (1.39)
Diluted				
Net earnings (loss)	\$ 1,697	\$ (1,722)	\$ 1,851	\$ (1,851)
Less: Preferred stock dividends and accretion	(285)	(283)	(571)	(566)
Earnings (loss) available to common shareholders	\$ 1,412	\$ (2,005)	\$ 1,280	\$ (2,417)
Weighted average common shares outstanding	1,744,565	1,744,216	1,744,565	1,744,091
Add: dilutive effects of assumed exercises of stock options	N/A	N/A	N/A	N/A
Average shares and dilutive potential common shares	1,744,565	1,744,216	1,744,565	1,744,091
Diluted earnings (loss) per common share	\$ 0.81	\$ (1.15)	\$ 0.73	\$ (1.39)

Stock options for 227,075 shares of common stock were not considered in computing diluted earnings per common share for the three and six months ended June 30, 2012 and 2011 because they were anti-dilutive.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012****NOTE (4) Securities**

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolios at June 30, 2012 and December 31, 2011 and the corresponding amounts of unrealized gains which are recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	Fair Value
June 30, 2012:				
Residential mortgage-backed	\$ 14,863	\$ 842	\$	\$ 15,705
U.S. Government and federal agency				
Total available-for-sale securities	\$ 14,863	\$ 842	\$	\$ 15,705
December 31, 2011:				
Residential mortgage-backed	\$ 17,008	\$ 902	\$	\$ 17,910
U.S. Government and federal agency	1,000	69		1,069
Total available-for-sale securities	\$ 18,008	\$ 971	\$	\$ 18,979

The amortized cost and fair value of the investment securities portfolios are shown by contractual maturity at June 30, 2012. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily residential mortgage-backed securities, are shown separately.

Maturity	Available-for-Sale	
	Amortized Cost	Fair Value
	(In thousands)	
Within one year	\$	\$
One to five years		
Five to ten years		
Beyond ten years		
Residential mortgage-backed	14,863	15,705
Total	\$ 14,863	\$ 15,705

Securities pledged had a carrying amount of \$1.6 million and \$1.5 million, respectively, at June 30, 2012 and December 31, 2011, and were pledged to secure public deposits. At June 30, 2012 and December 31, 2011, 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 shareholders' equity. During the six months ended June 30, 2012, \$1.0 million of U.S. federal agency bonds were sold and the Company recognized a gain of \$50 thousand. There were no sales of securities during the six months ended June 30, 2011.

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There were no securities with unrealized losses at June 30, 2012 and December 31, 2011. We evaluate securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012****NOTE (5) Loans Receivable Held-for-Sale, Net**

Loans receivable held-for-sale at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
	(In thousands)	
Five or more units residential	\$ 6,289	\$ 6,395
Commercial real estate	1,699	1,712
Church	5,214	5,550
Valuation allowance for unrealized losses	(628)	(674)
Loans receivable, held for sale, net	\$ 12,574	\$ 12,983

Loans receivable held-for-sale, net, consisted of five or more units residential, commercial real estate and church loans originated for sale and five or more units residential loans transferred from our loan portfolio. Non-performing loans receivable held-for-sale included in loans receivable held-for-sale, net, totaled \$4.9 million, net of charge-offs of \$1.2 million and a \$337 thousand valuation allowance, as of June 30, 2012 and totaled \$5.2 million, net of charge-offs of \$953 thousand and a \$382 thousand valuation allowance, as of December 31, 2011. Restructured loans receivable held-for-sale on which the borrowers 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 \$2.1 million, net of a \$291 thousand valuation allowance, as of June 30, 2012 and December 31, 2011. During the six months ended June 30, 2012, there were no loans receivable held-for-sale transferred to REO. A loan receivable held-for-sale secured by a church building, which had a carrying amount of \$266 thousand, net of a charge-off of \$292 thousand, was transferred to REO during the six months ended June 30, 2011.

Net lower of cost or market write-downs (recovery) on non-performing loans receivable held-for-sale totaled \$187 thousand for the six months ended June 30, 2012, compared to (\$35) thousand for the same period in 2011. Additionally, during the first half of 2012, we decreased our valuation allowance by \$1 thousand on loans held for sale that are still considered performing loans compared to an increase of \$61 thousand during the same period in 2011.

NOTE (6) Loans Receivable

Loans at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
	(In thousands)	
Real estate:		
One to four units	\$ 73,834	\$ 76,682
Five or more units	98,326	108,161
Commercial real estate	47,364	54,259
Church	86,506	89,099
Construction	1,038	3,790
Commercial:		
Sports	1,731	1,996
Other	4,164	4,900

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Consumer:		
Loan on savings		821
Other	131	108
Total gross loans receivable	313,094	339,816
Less:		
Loans in process	116	202
Net deferred loan fees (costs)	(259)	(473)
Unamortized discounts	18	18
Allowance for loan losses	17,856	17,299
Loans receivable, net	\$ 295,363	\$ 322,270

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012**

The following table presents the activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2012 and 2011:

	For the three months ended June 30, 2012							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Beginning balance	\$ 4,836	\$ 3,013	\$ 2,859	\$ 6,494	\$ 233	\$ 231	\$ 86	\$ 17,752
Provision for loan losses	(135)	(116)	(234)	882	(127)	(168)		102
Recoveries			15	3		138	2	158
Loans charged off				(156)				(156)
Ending balance	\$ 4,701	\$ 2,897	\$ 2,640	\$ 7,223	\$ 106	\$ 201	\$ 88	\$ 17,856

	For the six months ended June 30, 2012							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Beginning balance	\$ 4,855	\$ 2,972	\$ 3,108	\$ 5,742	\$ 249	\$ 247	\$ 126	\$ 17,299
Provision for loan losses	201	(75)	(440)	1,861	(143)	(301)	(42)	1,061
Recoveries			30	7		255	4	296
Loans charged off	(355)		(58)	(387)				(800)
Ending balance	\$ 4,701	\$ 2,897	\$ 2,640	\$ 7,223	\$ 106	\$ 201	\$ 88	\$ 17,856

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

	For the six months ended June 30, 2011							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							

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Beginning balance	\$ 4,579	\$ 2,469	\$ 3,493	\$ 6,909	\$ 74	\$ 1,300	\$ 1,634	\$ 20,458
Provision for loan losses	(245)	572	3,369	477	(6)	238	269	4,674
Recoveries							8	8
Loans charged off	(105)	(149)	(609)	(189)			(1,843)	(2,895)
Ending balance	\$ 4,229	\$ 2,892	\$ 6,253	\$ 7,197	\$ 68	\$ 1,538	\$ 68	\$ 22,245

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2012 and December 31, 2011:

	June 30, 2012							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 1,529	\$ 150	\$ 245	\$ 1,734	\$ 87	\$	\$ 69	\$ 3,814
Collectively evaluated for impairment	3,172	2,747	2,395	5,489	19	201	19	14,042
Total ending allowance balance	\$ 4,701	\$ 2,897	\$ 2,640	\$ 7,223	\$ 106	\$ 201	\$ 88	\$ 17,856
Loans:								
Loans individually evaluated for impairment	\$ 14,001	\$ 2,285	\$ 7,730	\$ 32,794	\$ 292	\$	\$ 70	\$ 57,172
Loans collectively evaluated for impairment	59,833	96,041	39,634	53,712	746	5,895	61	255,922
Total ending loans balance	\$ 73,834	\$ 98,326	\$ 47,364	\$ 86,506	\$ 1,038	\$ 5,895	\$ 131	\$ 313,094
	December 31, 2011							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 1,678	\$ 161	\$ 255	\$ 1,683	\$ 97	\$	\$ 70	\$ 3,944
Collectively evaluated for impairment	3,177	2,811	2,853	4,059	152	247	56	13,355
Total ending allowance balance	\$ 4,855	\$ 2,972	\$ 3,108	\$ 5,742	\$ 249	\$ 247	\$ 126	\$ 17,299
Loans:								
Loans individually evaluated for impairment	\$ 13,246	\$ 3,837	\$ 7,396	\$ 31,494	\$ 302	\$	\$ 70	\$ 56,345
Loans collectively evaluated for impairment	63,436	104,324	46,863	57,605	3,488	6,896	859	283,471
Total ending loans balance	\$ 76,682	\$ 108,161	\$ 54,259	\$ 89,099	\$ 3,790	\$ 6,896	\$ 929	\$ 339,816

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012**

The following table presents information related to impaired loans by class of loans as of and for the three and six months ended June 30, 2012 and 2011:

	As of June 30, 2012			Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment (In thousands)	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance recorded:							
One to four units	\$ 10,216	\$ 7,971	\$	\$ 8,009	\$ 34	\$ 7,938	\$ 74
Five or more units	1,438	1,327		2,090	2	2,422	8
Commercial real estate	9,594	5,804		5,853	37	5,664	97
Church	25,696	21,652		22,086	134	21,627	262
Commercial:							
Sports	4,000						
Other	285						
With an allowance recorded:							
One to four units	6,033	6,030	1,529	5,989	76	5,758	160
Five or more units	958	958	150	960	16	962	32
Commercial real estate	1,926	1,926	245	1,931	24	1,936	48
Church	11,172	11,142	1,734	10,748	172	10,588	335
Construction	292	292	87	294	4	297	9
Commercial:							
Other	70	70	69	70	1	70	2
Total	\$ 71,680	\$ 57,172	\$ 3,814	\$ 58,030	\$ 500	\$ 57,262	\$ 1,027

	As of June 30, 2011			Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment (In thousands)	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance recorded:							
One to four units	\$ 6,664	\$ 5,330	\$	\$ 5,630	\$ 10	\$ 5,767	\$ 25
Five or more units	2,142	1,974		1,720	13	1,739	13
Commercial real estate	5,795	5,156		7,676	16	8,369	36
Church	15,652	15,183		15,609	42	14,481	92
Construction	317	317		319		319	
With an allowance recorded:							
One to four units	5,338	5,162	871	4,063	66	3,860	116

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Five or more units	1,088	1,093	183	1,043		808	
Commercial real estate	6,769	6,769	3,400	4,547	25	4,268	57
Church	15,766	15,667	3,127	15,058	139	14,712	320
Commercial:							
Sports	4,000	3,698	925	3,698		3,728	
Other	285	285	285	287		247	
Consumer:							
Loan on savings				889		1,479	
Total	\$ 63,816	\$ 60,634	\$ 8,791	\$ 60,539	\$ 311	\$ 59,777	\$ 659

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012**

The following table presents information related to impaired loans by class of loans as of and for year ended December 31, 2011:

	As of December 31, 2011			Year Ended December 31, 2011	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated (In thousands)	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance recorded:					
One to four units	\$ 6,904	\$ 4,636	\$	\$ 5,329	\$ 79
Five or more units	2,946	2,871		2,405	89
Commercial real estate	9,105	5,449		9,724	386
Church	24,680	20,560		20,757	740
Commercial:					
Sports	4,000			2,566	
Other	285			243	10
Consumer:					
Loan on savings				796	
With an allowance recorded:					
One to four units	8,610	8,610	1,678	5,507	407
Five or more units	966	966	161	794	64
Commercial real estate	1,947	1,947	255	1,963	97
Church	10,934	10,934	1,683	9,391	705
Construction	302	302	97	314	23
Commercial:					
Other	70	70	70	54	6
Total	\$ 70,749	\$ 56,345	\$ 3,944	\$ 59,843	\$ 2,606

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs. Cash-basis interest income recognized represents cash received for interest payments on accruing impaired loans. Interest income that would have been recognized for the six months ended June 30, 2012 had loans performed in accordance with their original terms was \$2.3 million.

The following table presents the recorded investment in non-accrual loans by class of loans as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(In thousands)	
Loans receivable, held for sale:		
Five or more units	\$ 2,419	\$ 2,496
Commercial real estate	333	338
Church	2,455	2,778

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Loans receivable, net:		
One to four units	8,707	7,974
Five or more units	1,902	3,450
Commercial real estate	5,804	5,449
Church	22,758	21,891
Construction	292	302
Consumer:		
Other	70	70
Total non-accrual loans	\$ 44,740	\$ 44,748

There were no loans 90 days or more delinquent that were accruing interest as of June 30, 2012 or December 31, 2011.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012**

The following tables present the aging of the recorded investment in past due loans, including loans held for sale, as of June 30, 2012 and December 31, 2011 by class of loans:

	June 30, 2012				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due (In thousands)	Total Past Due	Total Loans Not Past Due
Loans receivable, held for sale:					
Five or more units	\$	\$	\$ 2,419	\$ 2,419	\$ 3,870
Commercial real estate			333	333	1,366
Church			2,455	2,455	2,759
Loans receivable, net:					
One to four units	3,259		8,707	11,966	61,868
Five or more units		498	1,902	2,400	95,926
Commercial real estate	2,219	833	5,804	8,856	38,508
Church	809	382	22,758	23,949	62,557
Construction			292	292	746
Commercial:					
Sports					1,731
Other					4,164
Consumer:					
Loan on savings					
Other			70	70	61
Total	\$ 6,287	\$ 1,713	\$ 44,740	\$ 52,740	\$ 273,556

	December 31, 2011				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due (In thousands)	Total Past Due	Total Loans Not Past Due
Loans receivable, held for sale:					
Five or more units	\$	\$	\$ 2,496	\$ 2,496	\$ 3,899
Commercial real estate			338	338	1,374
Church			2,778	2,778	2,772
Loans receivable, net:					
One to four units	921	2,464	7,974	11,359	65,323
Five or more units	1,324	63	3,450	4,837	103,324
Commercial real estate	2,247	525	5,449	8,221	46,038
Church	2,647	1,440	21,891	25,978	63,121
Construction		264	302	566	3,224
Commercial:					
Sports					1,996

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Other	125			125	4,775
Consumer:					
Loan on savings					821
Other			70	70	38
Total	\$ 7,264	\$ 4,756	\$ 44,748	\$ 56,768	\$ 296,705

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012****Troubled Debt Restructurings**

The Company has allocated \$2.9 million and \$2.6 million of specific reserves for loans the terms of which have been modified in troubled debt restructurings and were performing as of June 30, 2012 and December 31, 2011. At June 30, 2012, loans classified as a troubled debt restructuring totaled \$40.4 million, of which \$22.3 million were included in non-accrual loans and \$18.1 million were on accrual status. At December 31, 2011, loans classified as a TDR totaled \$37.1 million, of which \$19.4 million were included in non-accrual loans and \$17.7 million were on accrual status. TDRs on accrual status are comprised of loans that were accruing at the time of restructuring or loans that have complied with the terms of their restructured agreements for a satisfactory period of time, and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments as modified. As of June 30, 2012 and December 31, 2011, the Company has no commitment to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the six months ended June 30, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 year to 7 years. Modifications involving an extension of the maturity date were for 2 year and 7 year periods.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three and six months ended June 30, 2012:

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Number of Loans	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Loans	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
	(Dollars in thousands)					
One to four units	1	\$ 36	\$ 36	1	\$ 36	\$ 36
Commercial real estate	1	505	511	2	734	740
Church	5	2,386	2,391	8	3,399	3,404
Total	7	\$ 2,927	\$ 2,938	11	\$ 4,169	\$ 4,180

The troubled debt restructurings described above increased the allowance for loan losses by \$144 thousand and \$231 thousand for the three and six months ended June 30, 2012 and resulted in charge offs of \$100 thousand during the three and six months ended June 30, 2012.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three and six months ended June 30, 2012:

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Number of	Pre-Modification Outstanding	Number of Loans	Pre-Modification Outstanding

	Loans	Recorded Investment	Recorded Investment
		(Dollars in thousands)	
Church	4	\$ 3,691	5 \$ 3,791
Total	4	\$ 3,691	5 \$ 3,791

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2012

The terms of certain other loans were modified during the six months ended June 30, 2012 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of June 30, 2012 of \$1.2 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Credit Quality Indicators

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. For one-to-four family residential, consumer and other smaller balance homogenous loans, a credit grade is established at inception, and generally only adjusted based on performance. Information about payment status is disclosed elsewhere. The Company analyzes all other loans individually by classifying the loans as to credit risk. This analysis is performed at least on a quarterly basis. The Company uses the following definitions for risk ratings:

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

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

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

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

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012**

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans as of June 30, 2012 and December 31, 2011 is as follows:

	June 30, 2012				
	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)				
One to four units	\$ 60,832	\$ 2,140	\$ 10,711	\$ 151	\$
Five or more units	87,119	5,715	5,348	144	
Commercial real estate	32,342	2,766	12,189	67	
Church	36,937	15,406	33,912	251	
Construction	482	264	292		
Commercial:					
Sports		1,731			
Other	2,011	2,055	98		
Consumer:					
Other	61		70		
Total	\$ 219,784	\$ 30,077	\$ 62,620	\$ 613	\$

	December 31, 2011				
	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)				
One to four units	\$ 63,483	\$ 3,044	\$ 9,846	\$ 309	\$
Five or more units	95,621	7,450	4,939	151	
Commercial real estate	36,098	6,721	11,364	76	
Church	37,532	13,100	37,873	594	
Construction	500	2,988	302		
Commercial:					
Sports		1,996			
Other	2,363	2,369	168		
Consumer:					
Loan on savings	821				
Other	108				
Total	\$ 236,526	\$ 37,668	\$ 64,492	\$ 1,130	\$

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

On March 17, 2004, the Company issued \$6.0 million of Floating Rate Junior Subordinated Debentures in a private placement. The debentures mature in 10 years and interest is payable quarterly at a rate per annum equal to the 3-month LIBOR plus 2.54%. The interest rate is determined as of each March 17, June 17, September 17, and December 17, and was 3.01% at June 30, 2012. The Company stopped paying interest on the debentures and the senior line of credit discussed below in September 2010. Under the cease and desist order applicable to the Company discussed in Note 10, the Company is not permitted to make payments on its debt without prior notice to and receipt of written notice of

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non-objection from the Board of Governors of the Federal Reserve System, acting through the Federal Reserve Bank of San Francisco, (the FRB). 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.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2012

On February 28, 2010, the Company borrowed an aggregate of \$5.0 million under its \$5.0 million line of credit with another financial institution, and invested all of the proceeds in the equity capital of the Bank. The interest rate on the line of credit adjusts annually, subject to a minimum of 6.00% and increases by an additional 5% in the event of default. Borrowings under this line of credit are secured by the Company's assets, including the stock of the Bank. The full amount of this borrowing became due and payable on July 31, 2010. 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 certain conditions. The lender has informed the Company that it does not intend to extend the forbearance agreement. This senior line of credit has not been repaid and the Company is now in default under the line of credit agreement.

The Company is pursuing a comprehensive recapitalization plan to improve the Company's capital structure. To date, the Company has entered into a written agreement with the U.S. Department of the Treasury pursuant to which the U.S. Treasury will exchange its holdings of the Company's Series D and Series 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. The exchange by the U.S. Treasury is subject to various conditions, including the exchange of the Company's other outstanding series of preferred stock at discounts of 50% of the aggregate liquidation values, the placement of at least \$5 million of new common equity capital, and other conditions. The Exchange is expected to close contemporaneously with the closing of the private placement and the other exchange transactions. In addition, the Company has entered into a written agreement with the holder of its Series A Perpetual Preferred Stock pursuant to which the holder will exchange its holdings of Series A Preferred for common stock at a discount of 50% of the liquidation amount. This exchange is subject to various conditions, including the exchange of the Company's other outstanding series of preferred stock, the placement of new common equity capital, and other conditions. The Company is in discussions with the holders of its Series B Perpetual Preferred Stock and Series C Noncumulative Perpetual Convertible Preferred Stock to exchange their holdings for common stock at a discount of 50% of the liquidation amount. The Company has also proposed to the line of credit lender that it exchange a portion of the line of credit, which is currently in default, for common stock at 100% of the face amount to be exchanged; to forgive the accrued interest on the entire amount of the line of credit to the date of the exchange; and to enter into a modified credit agreement for the remainder of the facility that would be outstanding after the exchange.

As a condition to consummating these exchanges, the Company plans to concurrently complete private placements or other sales of the Company's common stock aggregating \$5 million, or \$3.5 million if approved by the U.S. Department of the Treasury, or more in gross proceeds. The Company anticipates that these exchanges and placements and sales of common stock would, if completed, result in the issuance of approximately 17.1 million new shares of the Company's common stock, which would constitute approximately 91% of the pro forma outstanding shares of the Company's common stock. The 17.1 million new shares of common stock exceed the Company's current unissued and authorized shares. The Company plans to seek shareholder approval to increase the Company's authorized shares, and issue a portion of such authorized shares in the recapitalization.

There can be no assurance that management's capital plan will be achieved. If the Company is unable to raise capital, management plans to continue to shrink assets, decrease nonperforming assets and implement strategies to increase earnings, such as the sale of the Bank's headquarters building in the second quarter of 2012. Failure to maintain capital sufficient to meet the higher capital requirements could result in further regulatory action, which could include the appointment of a conservator or receiver for the Bank. For further information relating to the cash position and requirements of the Company, see Note 12 - Going Concern.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2012

NOTE (8) Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

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 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 independent 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. Non-performing loans held for sale are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on 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 independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on 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 independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012****Assets Measured on a Recurring Basis**

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

	Fair Value Measurements at June 30, 2012 Using			Total
	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	\$	\$ 15,705	\$	\$ 15,705

	Fair Value Measurements at December 31, 2011 Using			Total
	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	\$	\$ 17,910	\$	\$ 17,910
Securities available-for-sale U.S. government and federal agency		1,069		1,069

There were no transfers between Level 1 and Level 2 during the first six months of 2012 and 2011.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012****Assets Measured on a Non-Recurring Basis**

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

	Principal Amount June 30, 2012	Valuation Allowance June 30, 2012	Principal Amount December 31, 2011	Valuation Allowance December 31, 2011
(In thousands)				
Assets:				
Non-performing loans receivable held-for-sale (1):				
Five or more units	\$ 2,419	\$ 337	\$ 2,496	\$ 382
Commercial real estate	333		338	
Church	2,456		2,778	
Impaired loans carried at fair value of collateral (2):				
One to four units	4,566	369	6,697	496
Five or more units	1,006	144	1,025	151
Commercial real estate	3,490		2,869	
Church	13,366	251	13,706	553
Construction	292	87	302	97
Other	70	70	70	70
Real estate owned:				
One to four units	315		759	41
Commercial real estate	234		3,374	248
Church	3,491	510	2,913	58

- (1) Includes \$2.3 million and \$2.7 million of loans held for sale that were carried at cost at June 30, 2012 and December 31, 2011 as the fair value of the collateral on these loans exceeded the book value as a result of charge-offs.
- (2) Includes \$20.3 million and \$18.6 million of loans that were carried at cost at June 30, 2012 and December 31, 2011 as the fair value of the collateral on these loans exceeded the book value as a result of charge-offs.

Collateral-dependent impaired loans and non-performing loans held for sale are measured for impairment using the fair value of the collateral. To determine the fair value of collateral, the Company primarily relies on third party appraisals, which is generally obtained every six to nine months. For one-to-four family residential loans, appraised values are based on comparative sales approach. A significant unobservable input in the sales approach is the adjustment for the differences between the comparable sales. At June 30, 2012, these adjustments ranged from an upward adjustment of 11% to a discount of 30%. For five or more units residential, commercial real estate and church loans, appraisers may use a single valuation approach or a combination of approaches such as comparative sales, cost or income approach. At June 30, 2012, adjustments made on five or more units residential, commercial real estate and church loans valued using the comparable sales approach ranged from an upward adjustment of 11% to a discount of 45%. A significant unobservable input in the income approach is the estimated income capitalization rate. At June 30, 2012, capitalization rates of 6.50% and 12% were utilized to determine the fair value of the underlying collateral of two commercial real estate loans and a capitalization rate of 7% was utilized to determine the fair value of the underlying collateral of a church loan. The Company's calculation of net realizable value considers any liens in place on the underlying collateral.

Real estate owned is measured at fair value less estimated costs to sell. The fair value of REO is determined using a third party appraisal and is based on comparative sales, cost or income approach, or a combination of these approaches. A significant unobservable input in the sales approach is the adjustment for the differences between the comparable sales. At June 30, 2012, these adjustments ranged from an upward adjustment of 34% to a discount of 37%. A significant unobservable input in the income approach is the estimated income capitalization rate. At

June 30, 2012, capitalization rates of 8% and 11.50% were utilized to determine the fair value of the underlying collateral of two church loans.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012**

The following table provides information regarding gains (losses) recognized on assets measured at fair value on a non-recurring basis for the three and six months ended June 30, 2012 and 2011.

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2011	
	2012	2011	2012	2011
	(In thousands)			
Non-performing loans receivable held-for-sale, net (1)	\$ (188)	\$ 35	\$ (187)	\$ 35
Impaired loans carried at fair value of collateral (2)	174	(2,948)	(916)	(5,060)
Real estate owned (3)	(331)	(702)	(312)	(782)
Total	\$ (345)	\$ (3,615)	\$ (1,415)	\$ (5,807)

- (1) Gains (losses) are charged to provision for losses on loans receivable held-for-sale.
- (2) Gains (losses) are charged against the allowance for loan losses.
- (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. Gains (losses) subsequent to the transfer of a loan to REO are charged to provision for losses on REO.

Fair Values of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at June 30, 2012 and December 31, 2011 were as follows:

	Carrying Value	Fair Value Measurements at June 30, 2012 Using			Total
		Level 1	Level 2	Level 3	
		(In thousands)			
Financial Assets:					
Cash and cash equivalents	\$ 46,136	\$ 46,136	\$	\$	\$ 46,136
Securities available-for-sale	15,705		15,705		15,705
Loans receivable held for sale, net	12,574			12,574	12,574
Loans receivable, net	295,363			295,128	295,128
Federal Home Loan Bank stock	3,901			N/A	N/A
Accrued interest receivable	1,476		56	1,420	1,476
Financial Liabilities:					
Deposits	\$ (270,047)	\$	\$ (267,535)	\$	\$ (267,535)
Federal Home Loan Bank advances	(83,000)		(88,668)		(88,668)
Junior subordinated debentures	(6,000)			(5,463)	(5,463)
Other borrowings	(5,000)			(4,554)	(4,554)
Accrued interest payable	(1,664)		(182)	(1,482)	(1,664)

December 31, 2011
Carrying Amount Estimated Fair Value

Financial Assets:		
Cash and cash equivalents	\$ 31,597	\$ 31,597
Securities available-for-sale	18,979	18,979
Loans receivable held for sale, net	12,983	12,983
Loans receivable, net	322,770	323,090
Federal Home Loan Bank stock	4,089	N/A
Accrued interest receivable	1,698	1,698
Financial Liabilities:		
Deposits	\$ (294,686)	\$ (294,313)
Federal Home Loan Bank advances	(83,000)	(88,911)
Junior subordinated debentures	(6,000)	(5,319)
Other borrowings	(5,000)	(4,434)
Advance payments by borrowers for taxes and insurance	(813)	(813)
Accrued interest payable	(1,302)	(1,302)

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2012

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

(a) Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

(b) Loans receivable held for sale

The fair value of loans held for sale is estimated based on quoted prices from third party sale analyses, existing sale agreements or appraisal reports adjusted by sales commission assumptions resulting in a Level 3 classification.

(c) Loans receivable

Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(d) FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(e) Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using discounted cash flow calculations that apply interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(f) Federal Home Loan Bank Advances

The fair values of the Federal Home Loan Bank advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(g) Subordinated Debentures and Other Borrowings

The fair values of the Company's Subordinated Debentures and other borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(h) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest are classified the same as the related asset / liability.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2012

NOTE (9) Stock-based Compensation

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

There were no options granted during the six months ended June 30, 2012 and 2011. The Company recorded \$40 thousand of stock-based compensation expense, net of tax, during the first half of 2012 compared to \$45 thousand for the first half of 2011.

NOTE (10) Regulatory Matters

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

Prompt corrective action regulations also administered by the OCC 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 consented to the issuance to them of cease and desist orders by the OTS effective September 9, 2010 requiring, among other things, that the Company and the Bank take remedial actions to improve the Bank's loan underwriting and internal asset review procedures, to reduce the amount of its non-performing assets and to improve other aspects of the Bank's business, as well as the Company's management of its business and the oversight of the Company's business by the Board. The cease and desist orders, which are now administered by the OCC with respect to the Bank and the FRB with respect to the Company, 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 5% and 10% levels for such ratios that are generally required under OTS (now OCC) regulations. The cease and desist orders also prohibit the Bank from paying dividends to the Company, and prohibit the Company from paying dividends to its shareholders, without the prior written approval of the OCC and the FRB, respectively. In addition, the Company is not permitted to incur, issue, renew, repurchase, make payments on or increase any debt or redeem any capital stock without prior notice to and receipt of written notice of non-objection from the FRB.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****June 30, 2012**

The Bank met the minimum capital requirements at June 30, 2012 to conform to the general regulatory definition of well-capitalized under the prompt corrective action regulations, as well as the higher capital standards under the cease and desist orders, however it cannot be considered well capitalized while under the cease and desist order. The Bank did not meet the minimum capital requirements under the cease and desist order at December 31, 2011.

Actual and normally required capital amounts and ratios at June 30, 2012 and December 31, 2011, together with the higher capital requirements that the Bank is required to meet under the cease and desist order applicable to it, are presented below.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations		Capital Requirements under Cease and Desist Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratios	Amount	Ratios
June 30, 2012:								
Tangible Capital to adjusted total assets	\$ 33,478	8.57%	\$ 5,858	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	\$ 33,478	8.57%	\$ 15,621	4.00%	\$ 19,527	5.00%	\$ 31,243	8.00%
Tier 1(Core) Capital to risk weighted assets	\$ 33,478	12.02%	N/A	N/A	\$ 16,705	6.00%	N/A	N/A
Total Capital to risk weighted assets	\$ 37,136	13.34%	\$ 22,273	8.00%	\$ 27,842	10.00%	\$ 33,410	12.00%
December 31, 2011 :								
Tangible Capital to adjusted total assets	\$ 30,961	7.27%	\$ 6,396	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	\$ 30,961	7.27%	\$ 17,055	4.00%	\$ 21,319	5.00%	\$ 34,111	8.00%
Tier 1(Core) Capital to risk weighted assets	\$ 30,961	10.31%	N/A	N/A	\$ 18,019	6.00%	N/A	N/A
Total Capital to risk weighted assets	\$ 34,882	11.61%	\$ 24,026	8.00%	\$ 30,032	10.00%	\$ 36,039	12.00%

NOTE (11) Income Taxes

The Company and its subsidiaries are subject to U.S. federal and state 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 recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and tax planning strategies. This analysis is updated quarterly. Based on this analysis, the Company determined that a full valuation allowance against the deferred tax assets at June 30, 2012 was necessary; accordingly, the Company increased its valuation allowance to \$8.0 million as of June 30, 2012, resulting in \$0 net deferred tax asset. The Company had recorded a valuation allowance of \$8.2 million and net deferred tax assets of \$850 thousand as of December 31, 2011. The decrease in net deferred tax assets from \$850 thousand at December 31, 2011 to \$0 at June 30, 2012 was due to the sale of the headquarters building and the Company's inability to project future taxable income to be able to utilize its deferred tax assets.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

June 30, 2012

NOTE (12) Going Concern

The Company's financial statements have been prepared assuming that the Company will continue as a going-concern, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, the Company has a tax sharing liability to the Bank which exceeds operating cash at the Company level. The Company used its cash available at the holding company level to pay a substantial portion of this liability pursuant to the terms of the Tax Allocation Agreement between the Bank and the Company on March 30, 2012 and does not have cash available to pay its operating expenses. Additionally, the Company is in default under the terms of a \$5.0 million line of credit with another financial institution lender (see Note 7).

Due to the regulatory cease and desist order that is in effect, the Bank is not allowed to make distributions to the Company without regulatory approval, and such approval is not likely to be given. Accordingly, the Company will not be able to meet its payment obligations within the foreseeable future unless the Company is able to secure new capital. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Management's plan to address the conditions described above is to raise additional equity capital for the Company and exchange senior securities for common equity (see Note 7). The Company's ability to continue as a going concern is dependent on the timely implementation and success of this plan. There can be no assurance that management's plan will be achieved.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Part I Item 1, Financial Statements, of this Quarterly Report on Form 10-Q and our amended Annual Report on Form 10-K/A for the year ended December 31, 2011.

Overview

Total assets decreased during the first six months of 2012 primarily due to a decrease in our loan portfolio, as loan repayments, foreclosures and charge-offs exceeded loan originations during the period. The decrease in our loan portfolio consisted of a \$9.8 million decrease in our five or more units residential real estate loan portfolio, a \$6.9 million decrease in our commercial real estate loan portfolio, a \$2.8 million decrease in our one-to-four family residential real estate loan portfolio, a \$2.6 million decrease in our church loan portfolio, a \$2.8 million decrease in our construction loan portfolio, a \$1.0 million decrease in our commercial loan portfolio, and a \$798 thousand decrease in our consumer loan portfolio.

Total deposits decreased during the first six months of 2012, while FHLB borrowings, subordinated debentures and other borrowings remained unchanged.

Our net earnings for the three and six months ended June 30, 2012 were \$1.7 million and \$1.9 million, respectively, compared to net losses of (\$1.7) million and (\$1.9) million, respectively, for the same periods a year ago, representing an increase in net earnings of \$3.4 million and \$3.7 million, respectively. The increase from a net loss to net earnings was primarily due to a \$2.5 million gain on the sale of our headquarters building, lower provision for loan losses, lower provision for losses on REO, and lower non-interest expense for the three and six months ended June 30, 2012.

Results of Operations*Net Interest Income*

For the second quarter of 2012, our net interest income before provision for loan losses was \$3.5 million, which represented a decrease of \$938 thousand, or 21%, from the second quarter of 2011. The decrease in net interest income was primarily attributable to a decrease in average interest-earning assets, combined with a decrease in net interest margin.

Average interest-earning assets for the second quarter of 2012 decreased \$64.4 million to \$395.3 million from \$459.7 million for the second quarter of 2011, which resulted in a \$1.1 million reduction in interest income. The decline in average interest-earning assets, primarily loans receivable, reflects our strategy throughout 2011 and 2012 to maintain our capital ratios above the required regulatory thresholds, in part by shrinking total assets. Additionally, the annualized yield on our average interest-earning assets decreased 39 basis points to 5.25% for the second quarter of 2012, compared to the annualized yield of 5.64% for the same period a year ago. The 39 basis point decline in the annualized yield on our average interest-earning assets resulted in a decrease of \$159 thousand in interest income. Continued higher levels of non-performing loans contributed to the decline in the annualized yield on our interest-earning assets.

Average interest-bearing liabilities for the second quarter of 2012 decreased \$52.6 million to \$376.7 million from \$429.3 million for the second quarter of 2011. The decrease in average interest-bearing liabilities resulted in a \$209 thousand reduction in interest expense. The annualized cost of our average interest-bearing liabilities decreased 11 basis points to 1.80% for the second quarter of 2012 from 1.91% for the same period a year ago, and resulted in a decrease of \$144 thousand in interest expense.

Table of Contents

For the six months ended June 30, 2012, net interest income before provision for loan losses totaled \$7.2 million, down \$1.6 million, or 18%, from \$8.8 million of net interest income before provision for loan losses for the same period a year ago. The \$1.6 million decrease in net interest income primarily resulted from a \$71.2 million decrease in average interest-earning assets and a 14 basis point decrease in net interest margin.

Provision and Allowance for Loan Losses

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

The provision for loan losses for the second quarter of 2012 totaled \$102 thousand, compared to \$3.4 million for the same period a year ago. The provision for loan losses decreased as a result of our loan portfolio shrinking by \$14.0 million during the second quarter of 2012 and lower charge-offs. During the second quarter, we increased the general valuation allowance on our church loan portfolio to reflect continued elevated delinquencies and lower valuations on collateral dependent church loans.

For the six months ended June 30, 2012, the provision for loan losses totaled \$1.1 million compared to \$4.7 million of provisions for the same period a year-ago. The decrease in loan loss provision was primarily due to a \$26.7 million decrease in our loan portfolio and a \$2.1 million lower charge-offs.

At June 30, 2012 our allowance for loan losses was \$17.9 million, or 5.70% of our gross loans receivable, compared to \$17.3 million, or 5.09% of our gross loans, at year-end 2011. The ratio of the allowance for loan losses to NPLs, excluding loans held for sale, increased to 45.17% at June 30, 2012, compared to 44.20% at year-end 2011. As of June 30, 2012, 67% of our NPLs had been written down to their adjusted fair value less estimated selling costs, by establishing specific reserves or charged-off as necessary.

Loan charge-offs during the first six months of 2012 were \$800 thousand, or 0.47% of average loans, compared to \$2.9 million, or 1.38% of average loans, during the first six months of 2011. Most of the \$800 thousand of charge-offs were not reserved for at year-end 2011 and were primarily related to loans that became impaired during the first six months of 2012 and with respect to which recent valuations of the underlying collateral reflected impairment losses. Charge-offs in church loans totaled \$387 thousand and represented 49% of charge-offs during 2012. Charge-offs in one-to-four family residential real estate loans totaled \$355 thousand and represented 44% of charge-offs during 2012. Charge-offs in commercial real estate loans totaled \$58 thousand and represented 7% of charge-offs during 2012.

Impaired loans at June 30, 2012 were \$57.2 million, compared to \$56.3 million at December 31, 2011. Specific reserves for impaired loans were \$3.8 million, or 6.67% of the aggregate impaired loan amount at June 30, 2012, compared to \$3.9 million, or 7.00%, at December 31, 2011. Excluding specific reserves for impaired loans, our coverage ratio (general allowance as a percentage of total non-impaired loans) was 5.49% at June 30, 2012, compared to 4.71% at December 31, 2011.

We performed an impairment analysis for all non-performing and restructured loans, and established specific loss allocations for impaired loans of \$3.8 million at June 30, 2012. Of the \$3.8 million specific loss allocations at June 30, 2012, \$920 thousand were related to \$2.5 million of loans that are non-performing and with respect to which the recent valuation of the underlying collateral reflected a decrease in values. Additionally, we recorded \$2.9 million of specific loss allocations for impairment related to \$18.0 million of accruing loans that were modified in troubled debt restructurings. On \$16.4 million of impaired loans, the fair value of collateral less estimated selling costs exceeded the recorded investment in the loan and did not require a specific loss allocation. The remaining \$20.3 million of impaired loans had been written down to fair value after charge-offs of \$12.9 million.

Table of Contents

Management believes that the allowance for loan losses is adequate to cover probable incurred losses in the loan portfolio as of June 30, 2012, but there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the OCC and the FDIC periodically review the allowance for loan losses as an integral part of their examination process. These agencies may require an increase in the allowance for loan losses based on their judgments of the information available to them at the time of their examinations. The provisions for loan losses and corresponding allowance for loan losses in these financial statements contained in Part 1, Item 1 of this Form 10-Q reflect judgments by the OCC made during its supervisory examination of our Bank completed in July 2012.

Non-interest Income

Non-interest income for the second quarter of 2012 totaled \$2.7 million compared to \$199 thousand for the second quarter of 2011. The \$2.5 million increase from the second quarter of 2011 was primarily due to a \$2.5 million gain on the sale of our headquarters building. During the quarter, non interest income also benefited from a \$50 thousand gain on a sale of securities and lower net losses on sales of REOs, which were partially offset by lower service charges for loan-related fees and retail banking fees.

For the six months ended June 30, 2012, non-interest income totaled \$3.1 million compared to \$380 thousand for the same period a year ago. The increase primarily reflects the gain on the sale of our headquarters building and higher net gains on sales of REO, which were partially offset by lower service charges and higher losses on mortgage banking activities for the first six months of 2012.

Non-interest Expense

Non-interest expense for the second quarter of 2012 totaled \$3.6 million, compared to \$4.1 million for the second quarter of 2011. Lower non-interest expense in the second quarter of 2012 was primarily due to lower provision for losses on REO, lower professional services expense and lower FDIC insurance expense resulting from asset shrinkage.

For the six months ended June 30, 2012, non-interest expense totaled \$6.6 million compared to \$7.6 million for the same period a year ago. The decrease in non-interest expense during the first half of 2012 primarily reflected lower provision for losses on REO, lower FDIC insurance expense, and lower compensation and benefits expense, occupancy expense and professional services expense, which were partially offset by higher provision for losses on loans held for sale.

Income Taxes

The Company's effective income tax rate was 31.27% and 31.39 % for the three and six months ended June 30, 2012 compared to 41.11% and 41.03% for the three and six months ended June 30, 2011. Income taxes for interim periods are computed by applying the projected annual effective income tax rate for the year to the year-to-date earnings plus discrete items (items incurred in the quarter). The projected effective tax rate incorporates certain non-taxable federal and state income items and expected increases to the valuation allowance for projected deferred tax assets.

Financial Condition

Total Assets

Total assets were \$390.9 million at June 30, 2012, which represented a decrease of \$22.8 million, or 6%, from December 31, 2011. During the first six months of 2012, net loans decreased by \$27.4 million, loans held for sale decreased by \$409 thousand, securities decreased by \$3.3 million, REO decreased by \$3.2 million, office properties and equipment decreased by \$1.9 million and deferred tax assets decreased by \$850 thousand, while cash and cash equivalents increased by \$14.5 million.

Table of Contents*Loan Portfolio*

Our gross loan portfolio decreased by \$26.7 million to \$313.1 million at June 30, 2012 from \$339.8 million at December 31, 2011, as loan repayments, foreclosures and charge-offs exceeded loan originations during the first six months of 2012. The decrease in our loan portfolio primarily consisted of a \$9.8 million decrease in our five or more units residential real estate loan portfolio, a \$6.9 million decrease in our commercial real estate loan portfolio, a \$2.8 million decrease in our one-to-four family residential real estate loan portfolio, a \$2.6 million decrease in our church loan portfolio, a \$2.8 million decrease in our construction loan portfolio, a \$1.0 million decrease in our commercial loan portfolio, and a \$798 thousand decrease in our consumer loan portfolio.

Loan originations for the first six months of 2012 totaled \$11.3 million, compared to \$2.3 million for the first six months of 2011. Loan repayments for the first six months of 2012 totaled \$34.7 million, compared to \$12.8 million for the comparable period in 2011. The increase in loan repayments was primarily attributable to a higher level of refinancings by borrowers who could take advantage of historically low interest rates and new financing opportunities in the stabilized commercial and single family markets. Loans transferred to REO during the first six months of 2012 totaled \$2.7 million, compared to \$6.4 million during the first six months of 2011. There were no loans transferred to loans held for sale during the first six months of 2012, compared to \$1.1 million of loans transferred to loans held for sale during the first six months of 2011.

Loans held for sale decreased from \$13.0 million at December 31, 2011 to \$12.6 million at June 30, 2012. The \$409 thousand decrease during the first six months of 2012 was primarily due to loan repayments and charge-offs.

Deposits

Deposits totaled \$270.0 million at June 30, 2012, down \$24.6 million, or 8%, from year-end 2011. During the first six months of 2012, core deposits (NOW, demand, money market and passbook accounts) decreased by \$2.8 million and represented 35% and 33% of total deposits at June 30, 2012 and December 31, 2011, respectively. Our certificates of deposit (CDs) decreased by \$21.8 million during the first six months of 2012 and represented 65% and 67% of total deposits at June 30, 2012 and December 31, 2011, respectively. Brokered deposits represented 1% and 3% of total deposits at June 30, 2012 and December 31, 2011, respectively.

Borrowings

Since year-end 2011, FHLB borrowings, subordinated debentures and other borrowings remained unchanged at \$83.0 million, \$6.0 million, and \$5.0 million, respectively. FHLB advances were 21% and 20% of total assets at June 30, 2012 and December 31, 2011, respectively. During the second quarter of 2012, \$13.5 million of FHLB advances were restructured which resulted in a decrease of the weighted average cost of advances from 3.09% at December 31, 2011 to 2.56% at June 30, 2012. See Liquidity for further information on subordinated debentures and other borrowings.

Non-Performing Assets

Non-performing assets (NPAs) include non-accrual loans and real estate owned through foreclosure or deed in lieu of foreclosure (REO). NPAs at June 30, 2012 were \$48.3 million, or 12.35% of total assets, compared to \$51.4 million, or 12.43% of total assets, at December 31, 2011. At June 30, 2012, non-accrual loans were \$44.7 million compared to \$44.7 million at December 31, 2011. These loans consist of delinquent loans that are 90 days or more past due and troubled debt restructurings (TDRs) that do not qualify for accrual status.

The non-accrual loans at June 30, 2012 included 34 church loans totaling \$25.2 million, 22 one-to-four family residential real estate loans totaling \$8.7 million, 14 commercial real estate loans totaling \$6.1 million, 9 five or more units residential real estate loans totaling \$4.3 million, a land loan for \$292 thousand, and a consumer loan for \$70 thousand.

Table of Contents

During the first six months of 2012, REO decreased by \$3.2 million to \$3.5 million at June 30, 2012, from \$6.7 million at the end of 2011. At June 30, 2012, the Bank's REO consisted of two one-to-four family residential properties, and eight commercial real estate properties, seven of which are church buildings. As part of our efforts to reduce non-performing assets, we sold seven REO properties for total proceeds of \$5.9 million, and recorded a corresponding net gain of \$395 thousand, during the first six months of 2012.

Performance Ratios

The annualized returns on average equity for the three and six months ended June 30, 2012 were 36.54% and 19.97%, compared to annualized loss on average equity of (21.41%) and (11.32%) for the three and six months ended June 30, 2011. The annualized returns on average assets for the three and six months ended June 30, 2012 were 1.69% and 0.91%, compared to annualized loss on average assets of (1.48%) and (0.78%) for the three and six months ended June 30, 2011. The efficiency ratios for the three and six months ended June 30, 2012 was 50.27% and 58.76%, compared to 73.68% and 74.40% for the three and six months ended June 30, 2011. The improvement in these ratios was primarily due to the gain on the sale of our headquarters building.

Liquidity

The objective of liquidity management is to ensure that we have the continuing ability to fund operations and meet other obligations on a timely and cost-effective basis. The Bank's sources of funds include deposits, advances from the FHLB and other borrowings, proceeds from the sale of loans, mortgage-backed and investment securities, and principal and interest payments from loans and mortgage-backed and other investment securities. Primary uses of funds include withdrawal of and interest payments on deposits, originations of loans, purchases of mortgage-backed and other investment securities, and payment of operating expenses.

Net cash inflows from operating activities totaled \$2.0 million and \$2.7 thousand during the first six months of 2012 and 2011, respectively. Net cash inflows from operating activities for the first half of 2012 were primarily attributable to interest payments received on loans and securities.

Net cash inflows from investing activities totaled \$37.2 million and \$28.8 million during the first six months of 2012 and 2011, respectively. Net cash inflows from investing activities for the first half of 2012 were attributable primarily to principal repayments on loans and securities, proceeds from the sale of the headquarters building and proceeds from sales of REOs.

Net cash outflows from financing activities totaled \$24.7 million and \$35.6 million during the first six months of 2012 and 2011, respectively. Net cash outflows from financing activities for the first half of 2012 were attributable primarily to the net decrease in deposits.

When the Bank has more funds than required for reserve requirements or short-term liquidity needs, the Bank sells federal funds to other financial institutions. Conversely, when the Bank has fewer funds than required, the Bank may borrow funds from the FHLB. The Bank is currently approved by the FHLB to borrow up to \$100.0 million to the extent the Bank provides qualifying collateral and hold sufficient FHLB stock. That approved limit and collateral requirement would have permitted the Bank, as of June 30, 2012, to borrow an additional \$17.0 million.

At times we maintain a portion of our liquid assets in interest-bearing cash deposits with other banks, in overnight federal funds sold to other banks, and in securities available-for-sale that are not pledged. The Bank's liquid assets at June 30, 2012 consisted of \$46.1 million in cash and cash equivalents and \$14.1 million in securities available-for-sale that are not pledged, compared to \$31.6 million in cash and cash equivalents and \$17.4 million in securities available-for-sale that are not pledged at December 31, 2011.

The Company has a tax sharing liability to the Bank which exceeds operating cash at the Company level. The liability was partially settled pursuant to the terms of the Tax Allocation Agreement between the Bank and the Company on March 30, 2012, which settlement consumed the Company's operating cash. Our ability to service our debt obligations and pay dividends and holding company expenses is dependent primarily on the recapitalization plan discussed in Capital Resources. Holding company debt obligations, which are included in other borrowings, are described below.

Table of Contents

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 3.10% at December 31, 2011. The Company stopped paying interest on the debentures and the senior line of credit discussed below in September 2010. As disclosed previously, the Company is not permitted to make payments on any debts without prior notice to and receipt of written notice of non-objection from the FRB. In addition, under the terms of the subordinated debentures, the Company is not allowed to make payments on the subordinated debentures if the Company is in default on any of its senior indebtedness, which term includes the senior line of credit described below.

On February 28, 2010, the Company borrowed an aggregate of \$5.0 million under its \$5.0 million line of credit with another financial institution, and invested all of the proceeds in the equity capital of the Bank. Borrowings under this line of credit are secured by the Company's assets, including the stock of the Bank. The interest rate on the line of credit adjusts annually, subject to a minimum of 6.00%, and increases by an additional 5% in the event of default. The full amount of this borrowing became due and payable on July 31, 2010. The Company does not have sufficient cash available to repay the borrowing at this time and would require approval of the FRB to make any payment on this senior line of credit or to obtain a dividend from the Bank for such purpose. On April 7, 2011, the lender agreed to forbear from exercising its rights (other than increasing the interest rate by the default rate margin) pursuant to the line of credit agreement until January 1, 2012 subject to certain conditions. The lender has informed the Company that it does not intend to extend the forbearance agreement. This senior line of credit has not been repaid and the Company is now in default under the line of credit agreement.

Due to the current regulatory cease and desist order that is in effect, the Bank is not allowed to make distributions to the Company without regulatory approval, and such approval is not likely to be given. Accordingly, the Company will not be able to meet its payment obligations within the foreseeable future unless the Company is able to secure new capital.

These conditions and the Company's operating losses raise substantial doubt about the Company's ability to continue as a going concern. These and related matters are discussed in Note 12 "Going Concern" of the Notes to Consolidated Financial Statements.

Capital Resources

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

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

We are pursuing a comprehensive recapitalization plan to improve the Company's capital structure. To date, we have entered into written agreements with:

The U.S. Treasury Department pursuant to which the U.S. Treasury will exchange the shares of our Series D and E Fixed Rate Cumulative Perpetual Preferred Stock held by it for our 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, subject to various conditions, including the exchange of the Company's other outstanding series of preferred stock at discounts of 50% of the aggregate liquidation values, the placement of at least \$5 million of new common equity capital, and other conditions; and

The holder of our Series A Perpetual Preferred Stock to exchange its holdings for common stock at a discount of 50% of the liquidation amount, subject to various conditions, including the exchange of the Company's other outstanding series of preferred stock, the placement of new common equity capital, and other conditions.

Table of Contents

We are also in negotiations with the holders of our Series B Perpetual Preferred Stock and Series C Noncumulative Perpetual Convertible Preferred Stock regarding exchange of their holdings for common stock on a similar basis as the exchange of the Series A Perpetual Preferred Stock, and we are in discussions with our senior bank lender regarding the exchange of a portion of the \$5 million outstanding amount borrowed under our line of credit, which is currently in default, for common stock at 100% of the face amount to be exchanged; the forgiveness of the accrued interest on the entire amount of the line of credit to the date of the exchange; and the execution of a modified credit agreement for the remainder of the facility that would be outstanding after the exchange.

The conditions to each of the above proposed exchanges include, or are expected to include, requirements that the holders of each series of our outstanding preferred stock concurrently exchange their preferred stock for our common stock on similar terms and that we concurrently complete private placements or other sales of new shares of common stock as discussed above, although we intend to seek approval from the U.S. Treasury to reduce the minimum amount of common equity we raise to \$3.5 million or more. Based on the agreements that we have executed, we anticipate that these exchanges and placements and sales of common stock would, if completed, result in the issuance of approximately 17.1 million new shares of the Company's common stock, which would constitute approximately 91% of the pro forma outstanding shares of the Company's common stock. The 17.1 million new shares of common stock exceed the Company's current unissued and authorized shares. We plan to seek shareholder approval to increase the Company's authorized shares, and issue a portion of such shares in the recapitalization.

In addition, we completed the sale of our Bank's headquarters building during this quarter and are working to decrease NPAs through proactive management and loan sales as part of our efforts to raise capital and increase earnings.

There can be no assurance our recapitalization plan will be achieved on the currently contemplated terms, or at all. If we are unable to raise capital, we plan to continue to shrink assets and implement other strategies to increase earnings. Failure to maintain capital sufficient to meet the higher capital requirements could result in further regulatory action, which could include the appointment of a conservator or receiver for the Bank. The Company or its creditors could also initiate bankruptcy proceedings.

Regulatory Capital

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

The Bank was in compliance with all capital requirements in effect at June 30, 2012, and met the generally applicable capital ratio standards necessary to be considered "well-capitalized" under the prompt corrective action regulations adopted pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. However, in March 2010, the Company and the Bank were determined to be "in troubled condition" by the OTS and they consented to the issuance to them of cease and desist orders by the OTS effective September 9, 2010, which orders remain in effect and are now administered by the OCC. The cease and desist orders require the Bank to achieve and maintain higher levels of regulatory capital than normally required. Under the applicable regulations, the Bank is therefore precluded from being considered to be more than "adequately capitalized" until such special capital requirements are terminated and the Company and the Bank are no longer considered to be "in troubled condition."

Table of Contents

The Bank met the minimum capital requirements under the cease and desist order at June 30, 2012. However, it did not meet the minimum capital requirements under the cease and desist order at March 31, 2012 and December 31, 2011. Actual and normally required capital amounts and ratios at June 30, 2012 and December 31, 2011, together with the higher capital requirements that the Bank is required to meet under the cease and desist order applicable to it, are presented below.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations		Capital Requirements under Cease and Desist Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratios	Amount	Ratios
June 30, 2012:								
Tangible Capital to adjusted total assets	\$ 33,478	8.57%	\$ 5,858	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	\$ 33,478	8.57%	\$ 15,621	4.00%	\$ 19,527	5.00%	\$ 31,243	8.00%
Tier 1(Core) Capital to risk weighted assets	\$ 33,478	12.02%	N/A	N/A	\$ 16,705	6.00%	N/A	N/A
Total Capital to risk weighted assets	\$ 37,136	13.34%	\$ 22,273	8.00%	\$ 27,842	10.00%	\$ 33,410	12.00%
December 31, 2011 :								
Tangible Capital to adjusted total assets	\$ 30,961	7.27%	\$ 6,396	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	\$ 30,961	7.27%	\$ 17,055	4.00%	\$ 21,319	5.00%	\$ 34,111	8.00%
Tier 1(Core) Capital to risk weighted assets	\$ 30,961	10.31%	N/A	N/A	\$ 18,019	6.00%	N/A	N/A
Total Capital to risk weighted assets	\$ 34,882	11.61%	\$ 24,026	8.00%	\$ 30,032	10.00%	\$ 36,039	12.00%

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was performed under the supervision of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as of June 30, 2012. Based on that evaluation and due to the material weaknesses identified below, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2012.

The Company's external auditors identified certain material misstatements in the course of their audit of our consolidated financial statements for the year ended December 31, 2011 and appropriate adjustments to the consolidated financial statements, resulting in an additional net loss of \$677 thousand, were made prior to their issuance. The adjustments included corrections of errors in the determination of specific allowances for impaired loans, errors in the calculation of the amortization of our investment in low-income housing projects and errors in the calculation of our income tax provision and the determination of the valuation allowance on our deferred tax assets.

Subsequent to the issuance of our 2011 consolidated financial statements and the filing of our Annual Report on Form 10-K on March 30, 2012, management became aware of certain additional errors in the preparation of our 2011 consolidated financial statements. The errors included failure in connection with preparation of our financial statements to obtain and take into account certain appraisals of the values of properties securing impaired loans that had been ordered and received by the Bank prior to the issuance date of our financial statements and failure to follow appropriate methods for calculating expected future payments on loans in connection with our discounted cash flow analysis for measuring impairment of loans deemed to be troubled debt restructurings. In addition, certain appraisals received after year-end 2011 indicated that impairment losses that had been determined using values based on broker provided opinions of value (BPOs) understated the losses inherent in those loans. We have determined that these additional errors also constituted material weaknesses in our system of internal controls over financial reporting.

Management, with the oversight of the Audit Committee, has taken and intends to take actions to address the material weaknesses discovered in our internal control over financial reporting. These include implementation of changes in our accounting policies and procedures to assure that appropriate methods are used in determining the values of collateral dependent loans and that all appraisals that have been ordered by the Bank to determine the values of properties securing our loans and REO are obtained and appropriately considered by accounting personnel in connection with preparation of our financial statements. In addition, we have discontinued our former practice of obtaining and relying upon BPOs in connection with valuing properties securing our loans. Management further intends to consult with subject matter experts when appropriate to determine appropriate loan valuation procedures or related accounting and regulatory requirements in situations not previously encountered by Bank accounting personnel and to institute second review procedures over financial reporting. The Audit Committee will also increase its oversight of the financial reporting process.

Except as described above, there has been no change in our internal control over financial reporting in our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

Item 1. LEGAL PROCEEDINGS

OTS Investigation

In 2010, the OTS notified us that it had initiated a formal investigation of the activities of a former loan officer of the Bank whose employment was terminated in March 2010. In connection with the investigation, the OTS issued subpoenas to the chief lending officer and chief executive officer requesting documents relating to our former loan officer and loans he originated while employed by the Bank. The subpoenas also contemplate taking oral testimony from the officers. While the OTS did not inform us of the scope of its investigation, we believe the investigation includes, but may not be limited to, inquiry into whether documentation submitted in connection with loan applications for loans originated by the loan officer contained inaccurate or deliberately falsified information and whether the loan officer received unauthorized direct or indirect benefits from payments made by the borrowers on such loans to loan brokers or other persons associated with the lending process. All of the loans originated by the former loan officer have been reviewed by us and by the independent loan review firm we engaged to perform a general review of our loan portfolio pursuant to the C&D issued to us by the OTS. We have taken the results of these loan reviews into account, along with all other relevant information known to us, in determining the amounts of our loan loss provisions and the level of our loan loss reserves that we believe to be appropriate as of June 30, 2012.

Item 1A. RISK FACTORS

Not Applicable

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

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

Table of Contents

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: October 1, 2012

By: /s/ Wayne-Kent A. Bradshaw
Wayne-Kent A. Bradshaw
Chief Executive Officer

Date: October 1, 2012

By: /s/ Samuel Sarpong
Samuel Sarpong
Chief Financial Officer