TUCOWS INC /PA/
Form 10-Q
November 13, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from to

Commission file number 1-32600

TUCOWS INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**23-2707366**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

96 Mowat Avenue,

Toronto, Ontario M6K 3M1, Canada

(Address of Principal Executive Offices) (Zip Code)

(416) 535-0123

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T §232.405 of this chapter during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

As of November 13, 2009, there were 67,080,353 outstanding shares of common stock, no par value, of the registrant.

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TUCOWS INC.

Form 10-Q Quarterly Report

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PART I.

FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Tucows Inc.

Consolidated Balance Sheets

(Dollar amounts in U.S. dollars)

	September 30, 2009 (unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 8,154,455	$ 5,427,467
Accounts receivable, net of allowance for doubtful accounts of $125,000 as of September 30, 2009 and $125,000 as of December 31, 2008	3,929,882	3,200,362
Prepaid expenses and deposits	2,743,505	2,274,043
Derivative instrument assets (note 6)	1,927,475	
Prepaid domain name registry and ancillary services fees, current portion	31,513,882	29,212,610
Deferred tax asset, current portion	590,000	590,000
Total current assets	48,859,199	40,704,482
Prepaid domain name registry and ancillary services fees, long-term portion	12,143,175	11,855,971
Property and equipment	2,148,509	3,072,958
Deferred financing charges	49,300	78,500
Deferred tax asset, long-term portion	2,410,000	2,410,000
Intangible assets (note 4)	19,041,083	20,206,996
Goodwill	17,990,807	17,990,807
Investment		200,000
Total assets	$ 102,642,073	$ 96,519,714
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,373,068	$ 1,633,830
Accrued liabilities	1,888,427	2,000,146
Customer deposits	3,764,320	3,319,241
Derivative instrument liabilities (note 6)		1,974,919
Loan payable, current portion (note 5)	3,698,685	2,624,242
Deferred revenue, current portion	40,303,458	37,985,821
Accreditation fees payable, current portion	508,180	510,548
Total current liabilities	51,536,138	50,048,747
Deferred revenue, long-term portion	16,198,501	16,201,804

Accreditation fees payable, long-term portion		187,285		187,374
Loan payable, long-term portion (note 5)				3,235,125
Deferred tax liability, long-term portion		4,899,000		5,396,000
Stockholders equity (note 11)				
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding				
Common stock - no par value, 250,000,000 shares authorized; 67,865,096 shares issued and outstanding as of September 30, 2009 and 73,073,782 shares issued and outstanding as of December 31, 2008		14,187,313		15,198,358
Additional paid-in capital		47,601,377		48,714,676
Deficit		(31,967,541)		(42,462,370)
Total stockholders equity		29,821,149		21,450,664
Total liabilities and stockholders equity	$	102,642,073	$	96,519,714

See accompanying notes to unaudited consolidated financial statements

Subsequent events (note 14).

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Tucows Inc.

Consolidated Statements of Operations

(Dollar amounts in U.S. dollars)

(unaudited)

		Three months ended September 30,		**Nine months ended September 30,**			
	2009	**2008**	**2009**	**2008**			
		(unaudited)		**(unaudited)**			
		$ 210,000		$ 81,418	$ 126,007	$ 29,864	$ 447,289
Wayne-Kent A. Bradshaw (6)	2009	$ 178,750	$ 224,250			$ 26,232	$ 429,232
Chief Operating Officer	2008						
Samuel Sarpong	2009	$ 161,551				$ 19,332	$ 180,883
Chief Financial Officer	2008	$ 150,000	$ 49,350	$ 50,067		$ 19,205	$ 268,622
Wilbur McKesson	2009	$ 159,811				$ 28,545	$ 188,356
Chief Lending Officer	2008	$ 155,625	$ 131,600	$ 51,944		$ 22,692	$ 361,861

(1) Includes amounts deferred and contributed to the 401(k) Plan by the named executive officer.

(2) Represents the grant date fair value of option awards granted under the Company s Long-Term Incentive Plans. Option awards vest 20% per year from the date of the grant and are fully vested in year five. The maximum term of each option is ten years. For the assumptions used in calculating the grant date fair value under ASC 718, see Note 14 of the Notes to the Consolidated Financial Statements of the Company filed with the SEC as part of the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

(3) The amounts shown represent performance-based bonuses earned in 2008 but paid in 2009. No performance-based bonuses were earned in 2009.

(4) The Bank has a Salary Continuation Agreement with Mr. Hudson. The amount listed reflects the change in the actuarial present value of the accumulated benefits under this agreement. The income from a bank owned life insurance policy reduces the expense related to the Salary Continuation Agreement pursuant to which the amounts shown are paid.

(5) Includes amounts paid by the Company to the 401(k) Plan account of the executive officer, and estimated allocations under the ESOP. Also includes perquisites and other benefits consisting of car and cellphone allowances, and premiums paid for medical, dental and group term life insurance policies.

(6) Wayne-Kent A. Bradshaw commenced his employment as the Bank s President and Chief Operating Officer in February 2009.

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The following table sets forth information concerning outstanding equity awards held by each named executive officer as of December 31, 2009.

Outstanding Equity Awards at December 31, 2009

	Option Awards				Stock Awards	
Name	**Number of Securities Underlying Unexercised Options (Exercisable)(1)**	**Number of Securities Underlying Unexercised Options (Unexercisable)(2)**	**Option Exercise Price(3)**	**Option Expiration Date(4)**	**Number of Shares or Units of Stock That Have Not Vested(5)**	**Market Value of Shares or Units of Stock That Have Not Vested(6)**
Paul C. Hudson	5,648		$ 4.34	11/15/10		
	29,718		$ 6.68	07/25/12		
Wayne K. Bradshaw		75,000	$ 4.98	03/18/19		
Samuel Sarpong	10,000		$ 13.11	04/21/14		
	9,000	6,000	$ 10.25	05/24/16	1,200	$ 7,176
	3,000	12,000	$ 5.95	10/22/18		
Wilbur McKesson	8,000	32,000	$ 5.95	10/22/18		

(1) The stock options shown are immediately exercisable.
(2) Options vest in equal annual installments on each anniversary date over a period of five years commencing on the date of the grant.
(3) Based upon the fair market value of a share of Company Common Stock on the date of grant.
(4) Terms of outstanding stock options are for a period of ten years from the date the option is granted.
(5) Shares vest in equal annual installments on each anniversary date over a period of five years commencing on the date of the grant.
(6) Based upon a fair market value of $5.98 per share for the Company Common Stock as of December 31, 2009.

Salary Continuation Agreement

Under Mr. Paul Hudson s 2006 Salary Continuation Agreement, upon termination of employment after reaching age 65, Mr. Hudson will receive an annual benefit of $100,000, divided into 12 equal monthly payments, for 15 years. The agreement includes provisions for early termination, disability, termination for cause, death and termination after a change in control of the Company. The present value of the accumulated benefit is the accrual balance as of December 31, 2009. The accrual balance reflected in the Company s consolidated financial statements is determined using a discount rate of 6%.

Change in Control Agreements

The Company and the Bank have entered into change in control agreements with each of its executive officers. Each agreement provides that if, within three years after any Change in Control (as defined in the agreements), the officer s employment is terminated, either by the officer following a demotion or other specified adverse treatment of the officer or by the Company or Bank other than for Cause (as defined in the agreements), then the officer will receive a severance payment equal to the sum of (A) the officer s unpaid salary and bonus or other incentive compensation for the remainder of the year in which employment is terminated and (B) a specified multiple of the highest Annual Compensation (as defined in the agreement) paid to the officer in any of the three years preceding termination of employment. The multiple is 2.5 for Mr. Hudson, 2.5 for Mr. Bradshaw, 1.5 for Mr. Sarpong and 1 for Mr. McKesson. In addition to these payments, any stock options and similar rights held by the officer will become fully vested and exercisable and any health and other benefits coverage provided to the officer will be continued for one year after termination of employment. However, no payments may be made until all funds received by the Company under the TARP have been repaid.

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DIRECTOR COMPENSATION

The following table summarizes the compensation paid to non-employee directors for the year ended December 31, 2009.

Name	Fees Earned or Paid in Cash(1)	Option Awards(2)	All Other Compensation(3)	Total
Kellogg Chan	$ 12,000	$ 3,994		$ 15,994
Robert C. Davidson	$ 21,000	$ 3,994	$ 5,319	$ 30,313
Javier León	$ 17,000	$ 3,994		$ 20,994
A. Odell Maddox	$ 18,500	$ 3,994	$ 5,161	$ 27,655
Daniel Medina	$ 21,000	$ 3,994		$ 24,994
Virgil Roberts	$ 20,000	$ 3,994		$ 23,994
Elrick Williams	$ 18,000	$ 3,994		$ 21,994

(1) Includes payments of annual retainer fees, fees paid to chairmen of Board committees and meeting attendance fees.

(2) Represents the grant date fair value of option awards granted under the Company s Long-Term Incentive Plans. Option awards vest immediately and the maximum term of each option is ten years. For the assumptions used in calculating the grant date fair value under ASC 718, see Note 14 of the Notes to the Consolidated Financial Statements of the Company filed with the SEC as part of the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

(3) Includes premiums paid for medical, dental and group term life insurance.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company s current loan policy provides that all loans made by the Company or its subsidiaries to its directors and executive officers must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and must not involve more than the normal risk of collectibility or present other unfavorable features.

On September 30, 1999, the Bank made a loan of $550,000 to Maddox & Stabler LLC, a firm managed by Mr. A. Odell Maddox. Mr. Maddox is a director of the Company and the Bank. The loan is secured by a 24-unit multi-family property located in Los Angeles, California. The terms of the 30-year loan include an initial fixed interest rate of 8% for the first five years and a variable interest rate thereafter equal to 2.50% over the one-year Treasury Bill rate. Since inception, payments on the loan have been made as agreed. As of March 31, 2010, the outstanding balance of the loan was $462,816.

Mr. Elrick Williams is a director of both the Company and the Bank and holds a non-controlling interest in Williams Group Holdings (WGH). On September 26, 2006, the Bank made a loan of $3,250,000 to Gemini Basketball (Gemini). In October 2007, WGH made a minority investment in Gemini. In October of 2008, the Bank made an additional $750,000 loan to Gemini. The total outstanding balance on the loans is $4,000,000. In January 2009, WGH acquired a majority interest in Gemini. The loan had an initial fixed rate of 6.50% for one year and a variable interest rate thereafter equal to 2.50% over the Wall Street Journal Prime Rate. Since inception, payments on the loan have been made as agreed.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company s executive officers and directors, and persons who own more than 10% of the Company s Common Stock, to report to the SEC their initial ownership of shares of the Company s Common Stock and any subsequent changes in that ownership. Specific due dates for these reports have been established by the SEC and any late filings or failures to file are to be disclosed in this Proxy Statement. Officers, directors and greater than 10% stockholders are required by SEC rules to furnish the Company with copies of all forms that they file pursuant to Section 16(a) of the Exchange Act.

Based solely on our review of copies of such forms received, the Company believes that, during the last fiscal year, all filing requirements under Section 16(a) of the Exchange Act applicable to its officers, directors and greater than 10% stockholders were timely met.

PROPOSAL 2. RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM

The Board has appointed Crowe Horwath LLP (Crowe Horwath) as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2010 and this appointment is being submitted to the stockholders for their consideration and ratification. If the appointment of Crowe Horwath is not ratified by the stockholders, the Audit Committee will consider the stockholders vote in deciding whether to reappoint Crowe Horwath as independent registered public accounting firm in the future.

It is anticipated that representatives of Crowe Horwath will be present at the Annual Meeting. The Crowe Horwath representatives will be given an opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions from the stockholders. Crowe Horwath performed the independent audit of the Company s financial statements for the fiscal years ended December 31, 2009 and 2008.

The Board of Directors unanimously recommends that you vote FOR

the proposal to ratify the appointment of Crowe Horwath LLP

as the Company s independent registered public accounting firm.

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Principal Accountant Fees and Services

In accordance with the Audit Committee s preapproval policies and procedures, before the Company s independent accountants may be engaged to render non-audit services for the Company or the Bank, the Audit Committee must approve each such engagement. In accordance with such policies and procedures, the Audit Committee also approved all of the audit and audit-related services provided by Crowe Horwath LLP for the years ended December 31, 2009 and 2008, prior to the engagement of such firm to provide such services. The following table sets forth the aggregate fees billed to us by Crowe Horwath for the years indicated.

	2009	2008
	(In thousands)	
Audit fees (1)	$ 153	$ 146
Audit-related fees (2)	24	10
All other fees	1(3)	8(4)
Total fees	$ 178	$ 164

(1) Aggregate fees billed for professional services rendered for the audit of the Company s consolidated financial statements included in the Company s Annual Report on Form 10-K and for reviews of the Company s consolidated financial statements included in the Company s Quarterly Reports on Form 10-Q.
(2) Consultation fees billed for professional services rendered for the 2009 and 2008 Independent Accountant s Report on Management s Assertion About Compliance with Minimum Servicing Standards (USAP) and for professional services rendered for consultation regarding management s assessment of the adequacy of internal control over financial reporting.
(3) Fees billed for professional services rendered for consultation regarding Senior Executive Officer bonus limitations for TARP recipients.
(4) Fees billed for certifications and internal control assessment software and license fees and related training.

PROPOSAL 3. AMENDMENT OF CERTIFICATE OF INCORPORATION

TO INCREASE THE COMPANY S NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

Proposed Amendment

On July 21, 2010, the Board approved an amendment to Article Fourth of the Company s Certificate of Incorporation to increase the number of authorized shares of the Company s Common Stock from 3,000,000 to 8,000,000. To become effective, this amendment must be approved by the holders of a majority of the issued and outstanding shares of the Company s Common Stock.

The Company currently has authority under its Certificate of Incorporation to issue 3,000,000 shares of Common Stock, par value $0.01 per share, of which 1,743,965 shares were issued and outstanding as of June 30, 2010. Also at that date, a total of 514,940 shares of the Company s authorized shares of Common Stock were reserved for future issuance pursuant to employee stock options and other employee stock awards (including unallocated shares of Common Stock held by our ESOP) or upon conversion of our Series C Preferred Stock. We therefore had only 741,095 shares of Common Stock available for issuance in capital raising transactions or for other purposes at that date.

Purpose of the Proposed Amendment

For the reasons described below, the Board believes the Company must seek to increase its common equity capital by a substantial amount. The Board has approved the proposed amendment and recommends that the stockholders vote to approve it at the Annual Meeting in order to provide the Company with the ability to act quickly in response to market conditions to raise capital through issuances of our Common Stock as opportunities arise. The Board believes that the current number of authorized shares of Common Stock, especially in light of the current market valuation of our Common Stock, will not be sufficient to enable us to raise the amount of

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capital that we deem appropriate. The additional authorized shares of Common Stock would also be available for other corporate purposes, including stock dividends and possible acquisitions of other banking businesses if deemed appropriate in the future by our board of directors and approved by applicable regulatory authorities.

As described in the Company s Annual Report filed with the SEC on Form 10-K, a copy of which accompanies this Proxy Statement, we have recently experienced substantial increases in delinquent loans and non-performing assets, as a result of which we found it necessary to make $19.6 million of provisions to increase our loan loss reserves in 2009, and consequently had a net loss of ($6.5) million for the 2009 fiscal year. The Office of Thrift Supervision (the OTS) conducted a regularly scheduled examination of the Bank commencing in January of 2010. Based on its preliminary findings in that examination, the OTS informed the Company that it considers both the Bank and the Company to be in troubled condition and imposed certain limitations on the Bank and Company, including the following, among others:

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

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

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

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

The Company may not incur, issue, renew, repurchase, make payments on or increase any debt without prior notice to and receipt of notice of non-objection from the OTS Regional Director.

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

In connection with the delivery of the formal written report of its examination, the OTS informed the Company that the OTS will issue a cease and desist order requiring the Company to take remedial actions to improve the Bank s loan underwriting and internal asset review procedures, to reduce the amount of its nonperforming 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 OTS has not yet delivered the proposed form of the cease and desist order to the Company or the Bank and the Company is therefore not able to describe its specific provisions. The OTS has, however, informed the Company that the cease and desist order will require that the Bank attain, and thereafter maintain, a Tier 1 (Core) Capital to Adjusted Total Assets ratio of at least 8% and a Total Risk-Based Capital to Risk-Weighted Assets ratio of at least 12%, both of which ratios are greater than the respective 6% and 10% levels for such ratios that are generally required under OTS regulations. At March 31, 2010, the Bank s ratios of Tier 1 (Core) Capital to Adjusted Total Assets and Total Risk-Based Capital to Risk-Weighted Assets were 7.82% and 11.89%, respectively. Further information regarding these regulatory capital ratios may be found in Note 15 of the Notes to Consolidated Financial Statements included in the Company s 2009 Annual Report to Stockholders that accompanies this Proxy Statement. While the Company anticipates that it will be able to attain such ratios in part through reduction of its total assets, the Company also anticipates that it will be necessary to raise additional capital through sales of shares of Common Stock.

We have not to date entered into specific discussions with potential investors regarding any issuances of shares of Common Stock or other capital raising transactions, but we expect that the number of shares of Common Stock we seek to issue in connection with our capital raising efforts will exceed the number of shares that currently remain available for issuance under our Certificate of Incorporation.

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Effects of the Proposed Amendment

The proposed amendment would not change the terms of our Common Stock nor would it affect the rights of the holders of currently issued and outstanding shares of our Common Stock. If this proposal is approved, the additional shares of our Common Stock may be issued from time to time upon authorization of the Board, without further approval by the stockholders, unless otherwise required by applicable law, and at such price or for such other consideration as the Board may deem appropriate. Further stockholder approval would be required under the listing rules of the Nasdaq Capital Market (the Nasdaq), which is the stock exchange on which our Common Stock is currently listed for trading, for the issuance by us of a number of shares of our Common Stock equal to 20% or more of our currently issued and outstanding shares of Common Stock, unless the issuance is in connection with a public offering or is at a price per share that is less than the greater of the per share book value or market value of the Common Stock at the time of issuance. Under an exception to this Nasdaq rule, however, the Nasdaq may permit the Company to complete such a transaction without stockholder approval if the Company s audit committee comprised solely of independent directors determines that the delay that would be entailed in securing stockholder approval would seriously jeopardize the Company s financial viability.

The authorization of the additional shares of our Common Stock sought by this proposal would not have any immediately dilutive effect on the proportionate voting power or other rights of our existing stockholders. The Company s existing stockholders, however, do not have preemptive rights to purchase any additional shares of our Common Stock that may be issued in the future. Accordingly, to the extent that the additional authorized shares of our Common Stock are issued in the future, however, they may decrease the existing stockholders percentage of equity ownership and, depending on the price at which they are issued, could be dilutive to the book value per share and earnings per share of existing stockholders.

The Board of Directors unanimously recommends that you vote FOR

the proposal to amend the Company s Certificate of Incorporation to increase the

Company s number of authorized shares of Common Stock.

PROPOSAL 4. NON-BINDING STOCKHOLDER APPROVAL OF EXECUTIVE COMPENSATION

The Company has issued two series of preferred stock to the U.S. Department of the Treasury pursuant to the Capital Purchase Program component of the Treasury Department s Troubled Asset Relief Program, or TARP. The American Recovery and Reinvestment Act of 2009, which was signed into law on February 17, 2009, imposes a number of requirements for participants in the TARP Capital Purchase Program. One of the requirements is that at each annual meeting of stockholders during the period in which any TARP obligation (which term includes the preferred stock the Company issued to the Treasury Department) remains outstanding, TARP recipients must include a separate nonbinding say on pay stockholder vote to approve the compensation of their executive officers among the matters to be considered and voted upon at each annual meeting of stockholders.

This proposal gives you, as a stockholder, the opportunity to vote for or against the following resolution:

RESOLVED, that the stockholders of Broadway Financial Corporation approve the compensation of executive officers as described in the executive compensation tables and the related disclosure contained in the Proxy Statement.

Because your vote is advisory, it will not be binding upon the Board and may not be construed as overruling any decision by the Board or the Company s Compensation/Benefits Committee. However, the Compensation/Benefits Committee may, in its sole discretion, take into account the outcome of the stockholders vote when considering future executive compensation arrangements.

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We believe that our compensation policies and procedures are aligned with the long-term interests of our stockholders and our commitment to responsible compensation practices justifies a vote by stockholders FOR the resolution approving the compensation of our executive officers as disclosed in this Proxy Statement.

The Board of Directors unanimously recommends that you vote FOR

the proposal to approve the Company s compensation of executive officers.

STOCKHOLDER PROPOSALS FOR PRESENTATION AT THE ANNUAL MEETING

Any stockholder of the Company wishing to have a proposal considered for inclusion in the Company s 2011 proxy solicitation materials must set forth such proposal in writing and file it with the Secretary of the Company on or before January 24, 2011, or such later date as may be designated by the Board if the 2011 Annual Meeting of Stockholders (the 2011 Annual Meeting) is not held in June. The Board will review any stockholder proposal that is filed as required and will determine whether such proposal meets applicable criteria for inclusion in the proxy solicitation materials and for consideration at the 2011 Annual Meeting. Except for director nominations, any stockholder may make any proposal at the 2011 Annual Meeting and the same may be discussed and considered, but unless stated in writing and filed with the Secretary of the Company on or before May 24, 2011, or such later date as may be designated by the Board if the 2011 Annual Meeting is not held in June, such proposal may only be voted upon at a meeting held at least 30 days after the Annual Meeting at which it is presented.

Under the Company s Bylaws, stockholder nominations for election of directors may only be made pursuant to timely notice in writing received by the Secretary of the Company not less than 60 days nor more than 90 days prior to the anniversary date of the previous year s annual meeting of stockholders to be considered at the 2011 Annual Meeting. Such notice must state the nominee s name, age, business and residence addresses and principal occupation or employment and the class and number of shares of Common Stock beneficially owned by the nominee on the date of the notice. The required notice must also disclose certain information relating to the nominee of the type required to be disclosed in a proxy statement and in certain other filings under federal securities laws.

ANNUAL REPORT AND FORM 10-K

The 2009 Annual Report to Stockholders, which includes our Annual Report on Form 10-K and contains the Company s consolidated financial statements for the year ended December 31, 2009, accompanies this Proxy Statement.

Stockholders may obtain, without charge, a copy of the Company s Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC, without the accompanying exhibits, by sending a written request to Daniele Johnson, Investor Relations Representative, Broadway Financial Corporation, 4800 Wilshire Boulevard, Los Angeles, California 90010. Stockholders may obtain any of the exhibits that are referred to in the list of exhibits attached to the Annual Report on Form 10-K upon payment to the Company of the cost of furnishing them.

BY ORDER OF THE BOARD OF DIRECTORS

Daniele Johnson
Secretary
August 20, 2010

Appendix A

Audit Committee Charter

The Board of Directors (Board) of Broadway Federal Bank, f.s.b. (Broadway or Bank) has selected a subcommittee of independent directors to act on their behalf as the Audit Committee (Committee). As the Audit Committee, they have been delegated certain powers as defined herein.

I. Statement of Authority

The Board elected the Committee and empowered the group with oversight responsibility in order to ensure that the Bank is consistently working to maintain and improve internal controls and financial reporting, as well as maintain compliance with all applicable laws and regulations. Through this charter, the Board delegates certain authority to the Committee to assist in fulfilling their oversight responsibilities.

To discharge its oversight responsibilities effectively, the Committee will maintain open lines of communication with the Board, the Bank s management, the Internal Auditor, the Independent Accountants and External Auditor s contracted to assist in the monitoring responsibilities assigned.

The Board recognizes that an informed, vigilant Audit Committee represents an effective influence for monitoring and evaluating adherence to internal operating and accounting controls along with fair and complete financial reporting as established by the Bank s management and as reported by the Independent Accountants and the Internal Auditor. The members of the Committee are charged with the same duty of good-faith, diligence, care and skill expected of them as Directors of the Bank.

II. Organization

1. The Committee shall be composed of three members, and not less than three outside directors who are independent of the Bank s management. The members of the Committee shall be elected by the Board for a one-year term. All vacancies in the Committee are to be filled by the Board to complete the unexpired term.

2. The Committee shall have a Chairman, elected by the Board. The Chairman shall call meetings, determine who shall attend, preside at each meeting of the Committee and appoint a secretary who shall keep a record of the Committee s proceedings.

3. The Committee shall meet monthly to review the activities and reports of the Internal Auditor, and other matters requiring consideration by the Committee. The Committee Chairman may call other meetings during the year as deemed necessary and prudent.

4. The Committee shall meet privately with the Internal Auditor at each Committee meeting. The Committee shall meet with Officers and Management when they are invited by the Committee for reviews and confirmation of responses.

5. The Committee shall report its significant activities to the full Board at least monthly, to keep the Board informed of Committee activities, their findings and their respective resolution.

III. Duties and Responsibilities

The Committee shall be responsible for overseeing the Bank s internal operation and accounting controls. To this end, the Committee has been charged with the following duties and responsibilities.

1. Provide an open avenue of communication between the Internal Auditor, the Office of Thrift Supervision (OTS), and the Board.

2. Review the Committee s charter annually, and update as changes are deemed necessary to clarify the duties of the Committee in order to maintain compliance with an applicable laws and regulations.

3. Recommend to the Board the employment of all Independent Accountants to be nominated, approve the compensation of the Independent Accountant, and review and recommend the discharge of the independent Accountants.

4. Determine the appointment, replacement, reassignment, or dismissal of the Internal Auditor.

5. Confirm and assure the independence of the Internal Auditor and the Independent Accountant, including a review of management consulting services and related fees provided by the Independent Accountant.

6. Inquire of management, the Internal Auditor, OTS and the Independent Accountant in regards to significant risks or exposures and. Assess the steps management has taken to minimize such risk to the company.

7. In consultation with the Independent Accountant and the Internal Auditor, determine the annual audit scope and annual audit plan of the Internal Auditor and the Independent Accountant.

8. Consider with management and the Board, the rationale for employing audit firms other than the principal Independent Accountant.

9. Review with the Internal Auditor the coordination of audit effort reduction of redundant efforts and the effective use of audit resources.

10. Consider and review with the Independent Accountant and the Internal Auditor:

    The adequacy of Broadway s internal controls including computerized information system controls and security.

    Any related significant findings and recommendations of the Independent Accountant and Internal Auditor together with management s responses thereto.

11. Review with management and the Independent Accountant those reports as set forth in the requirements of the Federal Deposit Insurance Corporation. Improvement Act of 1991 (FIDICIA) in. 1.2 CFR Part 363, Annual Independent Audit and Reporting Requirements:

    The Bank s annual financial statements and related footnotes.

    The Independent Accountant s audit of the financial statements and his or her report thereon.

    Any significant changes required in the Independent Accountant s audit plan.

    Any serious difficulties or disputes with management encountered during the course of the audit.

    Other matters related to the conduct of the audit communicated to the Committee under generally accepted auditing standards.

12. Consider and review with management and the Internal Auditor:

 Significant findings during the year and managements responses thereto.

 Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.

 Any changes required in the planned scope of their audit plan.

 The internal audit department staffing.

 Internal Audit s compliance with The IIA s Standards for the Professional Practice of Internal Auditing (Standards).

13. Review filings with OTS and other published documents containing the company s financial statements and consider whether the information contained in these documents was consistent with the information contained in the financial statements.

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14. Review with management and the Internal Auditor the interim financial reports that are filed with the OTS or other regulators.

15. Review policies and procedures with respect to officers expense accounts and pre-requisites, including their use of corporate assets, and consider the results of any review of these areas by the Internal Auditor or the Independent Accountant.

16. Review with the Internal Auditor the results of the review of the Bank s compliance with the Bank s code of conduct.

17. Review legal and regulatory matters that may have a material impact on the financial statements, related Bank compliance policies and programs and reports received from regulators.

18. Meet with the Internal Auditor and the Independent Accountant, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.

19. Report Committee actions to the Board with such recommendations as the Committee may deem appropriate.

20. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee s scope of responsibilities. The Committee shall be empowered to retain independent counsel, accountants or others to assist in the conduct of any investigation.

21. The Committee will perform such other functions as assigned by law, the company s charter or by-laws, or as assigned by the Board.

IV. Objectives and Scope

1. Reviewing and evaluating existing accounting, financial, data processing, and operating controls that is established by the Board.

2. Determining the extent of compliance with regulations achieved in Management s plans, policies and procedures.

3. Reviewing operations or systems to determine whether results are consistent with the objectives and goals of the Board and Management.

4. Assist Management in the design and implementation of systems, policies and procedures.

5. Determining the extent to which Management properly accounts for and safeguards assets.

6. Conducting special audits or reviews as a result of Board or Management requests.

7. Evaluating the adequacy and reliability of information and communication within the Bank for Management s use.

8. Insure that caution was taken and audit activities are performed in a manner consistent with The Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal, Internal Auditors and as directed by the Charter.

9. Coordinating the relationship between internal and external audits.

10. Determine if reasonable efforts have been made to clear audit exceptions by requiring that responses to audits are in writing. The reply should address corrective action taken or to be taken to all recommendations or, if not in agreement with the recommendation the justification for the difference in opinion.

11. If an audit has been conducted, and the audited entity(ies) has/have failed to respond timely to the audit inquiry or failed to take reasonable steps to clearing an audit exception, the Committee recommends note of the incident be incorporated in the employee s personnel file.

The Internal Auditor will incorporate these overall objectives into efficient and comprehensive audit programs which will be developed for each area examined. The Internal Auditor will consider the adequacy of existing internal controls in determining the nature, timing, and extent of audit procedures.

V. Independence

Independence is essential to the effectiveness of internal auditing. This independence is obtained primarily through the Audit Charter and the Board of Directors.

The organizational structure of the internal auditing function and the supports accorded to it by the Board and Management are major determinants of effectiveness and value. The Internal Auditor, therefore, reports to the Audit Committee of the Board whose authority assures both a broad range of audit coverage and the adequate consideration of an effective action on the audit findings and recommendations.

Administratively, the Internal Auditor reports to the Chairman/ CEO.

The Board of Directors amended and approved this Charter on February 17, 2010.

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Appendix B

Compensation Committee Charter

PURPOSE

The Board of Directors of Broadway Federal Bank (the Company) has delegated to the Compensation Committee strategic and administrative responsibility on a broad range of overall Company compensation, benefits and stock option issues.

The Compensation Committee is responsible for the review and reporting to the Board of Directors on all executive compensation matters that impact the Company and its subsidiaries.

It is the Committee s responsibility to ensure that the Chief Executive Officer, other officers and key management of the Company are compensated in a manner that will attract, motivate and retain the best possible management team for the shareholders of the Company.

It is the Committee s responsibility to ensure that compensation paid is consistent with the strategic goals of the Company; is based on performance against predetermined goals; is internally equitable and competitive, and is consistent with all regulatory requirements.

The Committee is also responsible for the communication to shareholders regarding the Company s compensation philosophy and the reasoning behind its compensation policies by producing an annual report on executive compensation for inclusion in the Company s proxy statement in accordance with the rules and regulations of the Securities and Exchange Commission.

COMMITTEE MEMBERSHIP

The Committee will be comprised of a minimum of three outside directors. Members shall be appointed annually by the Board and shall serve at the pleasure of the Board and for such term or terms as the Board may determine. Members will not be officers or employees of the company (or an individual who has served in that capacity during the past three years).

MEETINGS AND STRUCTURE

The Committee will meet on a regular basis. Special meetings of the Committee may be called if warranted, and actions may be taken by unanimous written consent when deemed necessary or desirable by the Committee or its chairperson.

The Committee may invite, consistent with maintaining confidentiality of its discussions, any other person the Committee or its chairperson deems necessary or desirable to assist the Committee in its deliberations.

COMMITTEE RESPONSIBILITIES

1. The Committee shall review the compensation strategy for the Company on an annual basis. The Committee shall have a strategy in place for base salary, bonus (short term incentive), equity (long term incentive) and benefits. The primary goal of the compensation strategy is to insure that the Company has the compensation programs in place to attract, retain and motivate the best possible workforce.

2. At the executive level, the strategy should ensure that the Chief Executive Officer and the members of executive management are rewarded appropriately for their contributions to Company growth and profitability. The executive compensation strategy must support the Company s business strategy and be aligned in a manner that is in the best interest of shareholders.

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3. The Committee will annually review and approve the individual elements of total compensation for the Chief Executive Officer, including corporate goals and objectives relevant to the CEO s compensation, evaluate the performance of the CEO in light of those goals and objectives, and set the CEO s compensation level based upon this evaluation.

4. The Committee will review and approve the recommendations made by the Chief Executive Officer on all other officers of the Bank as defined in Section 16 of the Securities Exchange Act of 1934 as amended and Rule 16 a-1 promulgated thereunder (each a Section 16 Officer).

5. The Committee will review and approve any severance or similar termination payments proposed to be made to any current or former Section 16 Officer.

6. The Committee will prepare and communicate in the annual Board Compensation Committee Report to shareholders the factors and criteria on which the compensation for the prior year for the CEO was based, including the relationship of the Company s performance to executive compensation.

7. The Committee will ensure that the annual executive incentive compensation plan is administered in a manner consistent with the Company s compensation strategy. The Committee will approve the following plan elements:

   Participation
   Target annual incentive awards.

   Corporate financial goals.

   Actual awards paid to the CEO and members of Executive Management

   Total funds reserved for payment under the plan.

8. The Committee will approve for submission to shareholders all new equity-related incentive plans, and administer the Company s long term incentive programs in a manner consistent with the terms of the plans as to the following:

   Participation

   Vesting Requirements

   Awards to the CEO and members of Executive Management

   Total shares reserved for awards

9. The Committee will review with the CEO matters relating to management succession, bench strength and organizational development.

10. The Committee will review and approve the Company s annual salary increase budget and any policy issues related to the administration of the Company s salary or benefit programs.

11. The Committee will prepare required reports for the Board of Directors.

12. In consultation with management, the Committee will oversee regulatory compliance with respect to compensation matters, including overseeing the Company s policies on structuring compensation programs to preserve tax deductibility.

13. The Committee will consider and recommend to the Board for approval corporate title appointments of Senior Vice Presidents and above.

14. The Committee will review and make recommendations to the Board to ensure the adequacy and appropriateness of Director compensation and benefits.

15. The Committee will semi-annually review executive and all incentive compensation to ensure compliance with TARP and to make sure the plans do not encourage unnecessary or excessive risk taking.

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16. The Committee will annually certify to the Department of Treasury the Bank s compliance with TARP regulations.

17. The Committee will annually develop a non-binding shareholder Say on Pay vote.

18. The Committee will meet annually with executives and incentive plan participants and state the Board s strong views against excessive and unnecessary risk taking. Committee will ensure all plan participants sign the TARP waiver form.

19. The Committee will manage the CD&A disclosure as it relates to compensation consultant disclosure and disclosure of all perquisites totaling over $25,000.

20. The Committee may retain its own outside experts for advice on any matter under review, as the Committee may deem necessary or appropriate and without seeking approval of the Board or Management.

21. The Committee shall perform any other duties or responsibilities expressly delegated to the Committee by the Board from time to time relating to the Company s compensation programs.

The Board of Directors amended and approved this Charter on April 21, 2010

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Appendix C

Nominating Committee Charter

The Board of Directors (Board) of Broadway Financial Corporation (Company) has elected a committee of the Directors to act on their behalf as the Nominating Committee (Committee). The Committee has been delegated certain powers by the Board as defined herein.

I. STATEMENT OF AUTHORITY

The Board elected and empowered the Committee to function as the Nominating Committee of the Board and to manage the nomination process for candidates for election to the Board. Through this charter, the Board delegates certain authority to the Committee to assist with the fulfillment of the Committee s responsibilities.

To discharge its responsibilities effectively, the Committee will maintain open lines of communication with the Board, the Company s management, and shareholders. The members of the Committee are charged with the same duty of care, good faith, diligence and skill expected of them as Directors of the Company.

II. ORGANIZATION

The Committee shall be composed of three members who are independent of the Company s management. The Board shall elect the members of the Committee for a one-year term. All vacancies in the Committee are to be filled by the Board to complete the unexpired term.

The Board shall designate the Chair of the Committee. The Chair shall call meetings, determine who, in addition to members of the Committee, shall attend, preside at each meeting of the Committee, and appoint a secretary who shall keep a record of Committee proceedings.

The Committee shall meet at least annually to conduct and manage the nomination process for Directors, and the Chair may call other meetings of the Committee during the year, as the Chair deems necessary and prudent.

The Committee shall report its significant actions and activities to the full Board to keep the Board informed of the Committee s findings, actions and activities.

III. DUTIES AND RESPONSIBILITIES

Nomination Duties and Responsibilities

1. The Committee shall review the qualifications and performance of current Directors standing for re-election and determine their willingness to be re-elected.

2. The Committee shall seek to identify qualified candidates to become members of the Board, as determined by the Board to be desirable to fill vacancies or to expand the Board from time to time.

3. The Committee will consider, using the same criteria as for other candidates, Director Candidates recommended by shareholders in accordance with the procedures stated in the Company s bylaws.

4. The Committee will direct disclosure of the Committee s charter on the Company s website or as an appendix to the Company s proxy statement at least once every three years in accordance with the rules of the Securities and Exchange Commission.

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Nominee Qualifications

Nominees for election to the Board should have more than one of the following qualifications:

1. Be familiar with the Company s business and the business of the Company s bank subsidiary, Broadway Federal Bank (Bank).

2. Have a successful career and be familiar with and knowledgeable of the market and communities in which the Bank operates.

3. Understand financial statements, budgeting and strategic planning.

4. Provide occupational, gender and/or ethnic diversity to the Board.

5. Understand the operation and scope of laws, regulations and contract obligations applicable to the Company and the Bank.

6. Have established a reputable business reputation and network of contacts within the market in which the Bank operates, and the capacity to bring new business to the Bank.

7. Willingness and ability to commit time to prepare for and attend Board and committee meetings.

The Board of Directors amended and approved this Charter on April 21, 2010.

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