

OptimumBank Holdings, Inc.  
Form 10QSB  
November 07, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

\_\_\_\_\_  
**Form 10-QSB**  
\_\_\_\_\_

(Mark One)

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

For the quarterly period ended September 30, 2007

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

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

Commission file number 0001288855

\_\_\_\_\_  
**OPTIMUMBANK HOLDINGS, INC.**

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

**Florida**  
(State or other jurisdiction of

incorporation or organization)

2477 East Commercial Boulevard, Fort Lauderdale, FL 33308

(Address of principal executive offices)

954-776-2332

(Issuer's telephone number)

**55-0865043**  
(IRS Employer

Identification No.)

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N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 2,968,335 common shares issued and outstanding as of November 6, 2007

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

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

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**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Condensed Consolidated Balance Sheets****(Dollars in thousands, except per share amounts)**

|   | September 30,<br>2007<br>(unaudited) | December 31,<br>2006 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>   |                                      |                      |
| Cash and due from banks   | \$ 334                               | \$ 923               |
| Federal funds sold  |                                      | 681                  |
| Total cash and cash equivalents   | 334                                  | 1,604                |
| Securities held to maturity (fair value approximates \$57,947 and \$33,150)                                       | 58,307                               | 33,399               |
| Security available for sale   | 240                                  | 241                  |
| Loans, net of allowance for loan losses of \$752 and \$974  | 178,109                              | 181,878              |
| Federal Home Loan Bank stock  | 3,077                                | 2,956                |
| Premises and equipment, net   | 3,287                                | 3,990                |
| Accrued interest receivable   | 1,436                                | 1,254                |
| Other assets  | 1,382                                | 381                  |
| Total assets  | \$ 246,172                           | \$ 225,703           |
| <b>Liabilities and Stockholders Equity</b>  |                                      |                      |
| Liabilities:  |                                      |                      |
| Noninterest-bearing demand deposits   | \$ 1,713                             | \$ 545               |
| Savings, NOW and money-market deposits  | 26,497                               | 25,875               |
| Time deposits   | 95,601                               | 103,082              |
| Total deposits  | 123,811                              | 129,502              |
| Federal Home Loan Bank advances   | 58,250                               | 56,550               |
| Securities sold under agreement to repurchase   | 31,900                               | 10,950               |
| Other borrowings  | 260                                  |                      |
| Junior subordinated debenture   | 5,155                                | 5,155                |
| Official checks   | 3,705                                | 2,463                |
| Other liabilities   | 1,389                                | 660                  |
| Total liabilities   | 224,470                              | 205,280              |
| Stockholders equity:  |                                      |                      |
| Common stock, \$.01 par value; 6,000,000 shares authorized, 2,968,335 and 2,820,280 shares issued and outstanding | 30                                   | 28                   |
| Additional paid-in capital  | 17,271                               | 15,930               |
| Retained earnings   | 4,411                                | 4,474                |
| Accumulated other comprehensive loss  | (10)                                 | (9)                  |

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|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 21,702     | 20,423     |
| Total liabilities and stockholders' equity | \$ 246,172 | \$ 225,703 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Earnings (Unaudited)****(Dollars in thousands, except per share amounts)**

|  | <b>Three Months Ended<br/>September 30,</b> |               | <b>Nine Months Ended<br/>September 30,</b> |                 |
|--|---|---------------|--|-----------------|
|  | <b>2007</b>                                 | <b>2006</b>   | <b>2007</b>                                | <b>2006</b>     |
| <b>Interest income:</b>                                    |   |               |  |                 |
| Loans  | \$ 3,240                                    | \$ 3,223      | \$ 9,801                                   | \$ 9,314        |
| Securities   | 824   | 334           | 1,978                                      | 896             |
| Other  | 66  | 64            | 183  | 153             |
| <b>Total interest income</b>                               | <b>4,130</b>                                | <b>3,621</b>  | <b>11,962</b>                              | <b>10,363</b>   |
| <b>Interest expense:</b>                                   |   |               |  |                 |
| Deposits   | 1,443                                       | 1,355         | 4,361                                      | 3,669           |
| Borrowings   | 1,056                                       | 749           | 2,808                                      | 2,135           |
| <b>Total interest expense</b>                              | <b>2,499</b>                                | <b>2,104</b>  | <b>7,169</b>                               | <b>5,804</b>    |
| <b>Net interest income</b>                                 | <b>1,631</b>                                | <b>1,517</b>  | <b>4,793</b>                               | <b>4,559</b>    |
| <b>Provision for loan losses</b>                           | <b>16</b>                                   | <b>12</b>     | <b>536</b>                                 | <b>145</b>      |
| <b>Net interest income after provision for loan losses</b> | <b>1,615</b>                                | <b>1,505</b>  | <b>4,257</b>                               | <b>4,414</b>    |
| <b>Noninterest income:</b>                                 |   |               |  |                 |
| Service charges and fees                                   | 30  | 17            | 56   | 54              |
| Loan prepayment fees                                       | 15  | 86            | 225  | 223             |
| Gain on early extinguishment of debt                       |   |               |  | 178             |
| Litigation settlement                                      |   |               | 155  | 93              |
| Other  | 2   | 5             | 4  | 12              |
| <b>Total noninterest income</b>                            | <b>47</b>                                   | <b>108</b>    | <b>440</b>                                 | <b>560</b>      |
| <b>Noninterest expenses:</b>                               |   |               |  |                 |
| Salaries and employee benefits                             | 532   | 488           | 1,509                                      | 1,484           |
| Occupancy and equipment                                    | 166   | 165           | 494  | 481             |
| Data processing  | 43  | 44            | 127  | 126             |
| Professional fees  | 82  | 65            | 208  | 197             |
| Insurance  | 15  | 16            | 45   | 52              |
| Stationary and supplies                                    | 8   | 12            | 30   | 29              |
| Other  | 113   | 100           | 344  | 298             |
| <b>Total noninterest expenses</b>                          | <b>959</b>                                  | <b>890</b>    | <b>2,757</b>                               | <b>2,667</b>    |
| <b>Earnings before income taxes</b>                        | <b>703</b>                                  | <b>723</b>    | <b>1,940</b>                               | <b>2,307</b>    |
| <b>Income taxes</b>  | <b>265</b>                                  | <b>272</b>    | <b>700</b>                                 | <b>853</b>      |
| <b>Net earnings</b>  | <b>\$ 438</b>                               | <b>\$ 451</b> | <b>\$ 1,240</b>                            | <b>\$ 1,454</b> |

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Net earnings per share:

|                     |    |     |    |     |    |     |    |     |
|---------------------|----|-----|----|-----|----|-----|----|-----|
| Basic               | \$ | .15 | \$ | .15 | \$ | .42 | \$ | .49 |
| Diluted             | \$ | .14 | \$ | .14 | \$ | .41 | \$ | .47 |
| Dividends per share | \$ |     | \$ |     | \$ |     | \$ |     |

See Accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Stockholders Equity****Nine Months Ended September 30, 2007 and 2006****(Dollars in thousands)**

|   | Common Stock |        | Additional | Retained | Accumulated   | Total        |
|---|--------------|--------|------------|----------|---------------|--------------|
|   | Shares       | Amount | Paid-In    | Earnings | Other         | Stockholders |
|   |              |        | Capital    |          | Comprehensive | Equity       |
|   |              |        |            |          | Loss          |              |
| Balance at December 31, 2005  | 2,663,775    | \$ 27  | 14,141     | 4,249    | (7)           | 18,410       |
| Comprehensive income:   |              |        |            |          |               |              |
| Net earnings for the nine months ended September 30, 2006 (unaudited)                     |              |        |            | 1,454    |               | 1,454        |
| Net change in unrealized loss on security available for sale (unaudited)                  |              |        |            |          | (2)           | (2)          |
| Comprehensive income (unaudited)  |              |        |            |          |               | 1,452        |
| Proceeds from exercise of common stock options, including tax benefit of \$37 (unaudited) |              |        |            |          |               |              |
|   | 21,150       |        | 166        |          |               | 166          |
| 5% stock dividend (unaudited)   | 134,078      | 1      | 1,608      | (1,609)  |               |              |
| Balance at September 30, 2006 (unaudited)   | 2,819,003    | \$ 28  | 15,915     | 4,094    | (9)           | 20,028       |
| Balance at December 31, 2006  | 2,820,280    | \$ 28  | 15,930     | 4,474    | (9)           | 20,423       |
| Comprehensive income:   |              |        |            |          |               |              |
| Net earnings for the nine months ended September 30, 2007 (unaudited)                     |              |        |            | 1,240    |               | 1,240        |
| Net change in unrealized loss on security available for sale (unaudited)                  |              |        |            |          | (1)           | (1)          |
| Comprehensive income (unaudited)  |              |        |            |          |               | 1,239        |
| Proceeds from exercise of common stock options (unaudited)                                |              |        |            |          |               |              |
|   | 7,166        |        | 41         |          |               | 41           |
| 5% stock dividend (fractional shares paid-in cash) (unaudited)                            | 140,889      | 2      | 1,300      | (1,303)  |               | (1)          |
| Balance at September 30, 2007 (unaudited)   | 2,968,335    | \$ 30  | 17,271     | 4,411    | (10)          | 21,702       |

See Accompanying Notes to Condensed Consolidated Financial Statements.



**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(In thousands)

|  | <b>Nine Months Ended<br/>September 30,</b> |                 |
|--|--|-----------------|
|  | <b>2007</b>                                | <b>2006</b>     |
| <b>Cash flows from operating activities:</b>   |  |                 |
| Net earnings   | \$ 1,240                                   | \$ 1,454        |
| <b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b> |  |                 |
| Depreciation and amortization  | 172  | 175             |
| Provision for loan losses  | 536  | 145             |
| Gain on early extinguishments of debt  |  | (178)           |
| Net amortization of fees, premiums and discounts   | 280  | 407             |
| Increase in accrued interest receivable  | (182)                                      | (108)           |
| (Increase) decrease in other assets  | (1,001)                                    | 302             |
| Increase in official checks and other liabilities  | 1,971                                      | 2,248           |
| <b>Net cash provided by operating activities</b>   | <b>3,016</b>                               | <b>4,445</b>    |
| <b>Cash flows from investing activities:</b>   |  |                 |
| Purchases of securities held to maturity   | (32,517)                                   | (4,926)         |
| Principal repayments of securities held to maturity  | 7,649                                      | 2,925           |
| Net decrease (increase) in loans   | 2,913                                      | (6,581)         |
| Sale (purchase) of premises and equipment  | 531  | (105)           |
| (Purchase) redemption of Federal Home Loan Bank stock                                      | (121)                                      | 71              |
| <b>Net cash used in investing activities</b>   | <b>(21,545)</b>                            | <b>(8,616)</b>  |
| <b>Cash flows from financing activities:</b>   |  |                 |
| Net (decrease) increase in deposits  | (5,691)                                    | 14,766          |
| Net increase in securities sold under agreements to repurchase                             | 20,950                                     |                 |
| Net increase in other borrowings   | 260  |                 |
| Proceeds from exercise of common stock options   | 41   | 129             |
| Net increase (decrease) in Federal Home Loan Bank advances                                 | 1,700                                      | (5,122)         |
| Tax benefit associated with exercise of common stock options                               |  | 37              |
| Fractional shares of stock dividend paid-in cash   | (1)  |                 |
| <b>Net cash provided by financing activities</b>   | <b>17,259</b>                              | <b>9,810</b>    |
| <b>Net (decrease) increase in cash and cash equivalents</b>                                | <b>(1,270)</b>                             | <b>5,639</b>    |
| <b>Cash and cash equivalents at beginning of the period</b>                                | <b>1,604</b>                               | <b>1,154</b>    |
| <b>Cash and cash equivalents at end of the period</b>                                      | <b>\$ 334</b>                              | <b>\$ 6,793</b> |
| <b>Supplemental disclosure of cash flow information:</b>                                   |  |                 |
| <b>Cash paid during the period for:</b>  |  |                 |
| Interest   | \$ 7,234                                   | \$ 5,809        |
| Income taxes   | \$ 832                                     | \$ 868          |

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### Noncash activities:

|  |    |       |    |       |
|--|----|-------|----|-------|
| Change in accumulated other comprehensive loss, net change in unrealized loss on security available for sale | \$ | (1)   | \$ | (2)   |
| Common stock dividend  | \$ | 1,302 | \$ | 1,609 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited)**

(1) **General.** OptimumBank Holdings, Inc. (the Holding Company) is a one-bank holding company and owns 100% of OptimumBank (the Bank), a state (Florida)-chartered commercial bank (collectively, the Company). The Holding Company's only business is the operation of the Bank. The Bank's deposits are insured by the Federal Deposit Insurance Corporation. The Bank offers a variety of community banking services to individual and corporate customers through its three banking offices located in Broward County, Florida.

In the opinion of the management, the accompanying condensed consolidated financial statements of the Company contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at September 30, 2007, and the results of operations for the three- and nine-month periods ended September 30, 2007 and 2006, and cash flows for the nine-months periods ended September 30, 2007 and 2006. The results of operations for the three and nine months ended September 30, 2007, are not necessarily indicative of the results to be expected for the full year.

(2) **Loan Impairment and Credit Losses.** The activity in the allowance for loan losses was as follows (in thousands):

|                                | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                | 2007                                | 2006   | 2007                               | 2006   |
| Balance at beginning of period | \$ 736                              | \$ 910 | \$ 974                             | \$ 777 |
| Charge-offs                    |                                     |        | (758)                              |        |
| Provision for loan losses      | 16                                  | 12     | 536                                | 145    |
| Balance at end of period       | \$ 752                              | \$ 922 | \$ 752                             | \$ 922 |

There were no impaired loans at September 30, 2007 or December 31, 2006. The average net investment in impaired loans and interest income recognized and received on impaired loans is as follows (in thousands):

|  | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|--|-------------------------------------|------|------------------------------------|------|
|  | 2007                                | 2006 | 2007                               | 2006 |
| Average net investment in impaired loans     | \$                                  | \$   | \$ 2,114                           | \$   |
| Interest income recognized on impaired loans | \$                                  | \$   | \$ 39                              | \$   |
| Interest income received on impaired loans   | \$                                  | \$   | \$ 39                              | \$   |

(continued)

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

- (2) **Loan Impairment and Credit Losses, Continued.** At December 31, 2006, the Company had no nonaccrual loans or loans over ninety days past due still accruing interest. Nonaccrual and past due loans were as follows as of September 30, 2007 (in thousands):

|   |        |
|---|--------|
| Nonaccrual loans                                      | \$ 108 |
| Past ninety days or more, but still accruing interest | \$     |

- (3) **Regulatory Capital.** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at September 30, 2007 of the regulatory capital requirements and the Bank's capital on a percentage basis:

|  | Bank   | Regulatory Requirement |
|--|--------|------------------------|
| Tier I capital to total average assets | 11.00% | 4.00%                  |
| Tier I capital to risk-weighted assets | 16.88% | 4.00%                  |
| Total capital to risk-weighted assets  | 17.35% | 8.00%                  |

- (4) **Earnings Per Share.** Basic earnings per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share were computed based on the weighted-average number of shares outstanding plus the effect of outstanding stock options, computed using the treasury stock method. All amounts reflect the 5% stock dividends declared in May, 2007 and April, 2006. Earnings per common share have been computed based on the following:

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2007                                | 2006      | 2007                               | 2006      |
| Weighted-average number of common shares outstanding used to calculate basic earnings per common share   | 2,964,752                           | 2,959,127 | 2,962,472                          | 2,951,839 |
| Effect of dilutive stock options   | 64,354                              | 155,049   | 71,755                             | 144,522   |
| Weighted-average number of common shares outstanding used to calculate diluted earnings per common share | 3,029,106                           | 3,114,176 | 3,034,227                          | 3,096,361 |

The following options were excluded from the calculation of EPS due to the exercise price being above the average market price:

|  | Number      | Exercise       | Expire    |
|--|-------------|----------------|-----------|
|  | Outstanding | Price          | Expire    |
| <b>For the three and nine months ended September 30, 2007:</b> |             |                |           |
| Options  | 254,678     | \$ 10.00-12.49 | 2014-2015 |



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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

- (5) **Stock-Based Compensation.** Prior to January 1, 2006, the Company's stock option plan was accounted for under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25 (Opinion 25), *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement No. 123, *Accounting for Stock-Based Compensation* (as amended by Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*) (collectively SFAS 123). No stock-based employee compensation cost was recognized in the Company's consolidated statements of earnings through December 31, 2005, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost to be recognized beginning in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). As of December 31, 2005, all stock options were fully vested and no options were granted in 2006 or 2007; therefore, no stock-based compensation has been recognized in 2006 or 2007.

The Company established an incentive Stock Option Plan (the Plan) for officers, directors and employees of the Company and reserved 572,082 (amended) shares of common stock for the plan. Both incentive stock options and nonqualified stock options may be granted under the plan. The exercise price of the stock options is determined by the board of directors at the time of grant, but cannot be less than the fair market value of the common stock on the date of grant. The options vest over three and five years. However, the Company accelerated the vesting of all unvested options in the Plan in 2005, in order to reduce noncash compensation expense that would have been recorded in its consolidated statements of earnings in future years due to the adoption of SFAS 123(R) in January 2006. The options must be exercised within ten years from the date of grant. At September 30, 2007, 13,561 options were available for grant.

(continued)

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

- (5) **Stock-Based Compensation, Continued.** A summary of the activity in the Company's stock option plan is as follows. All amounts reflect the 5% stock dividends declared in May 2007 and April 2006. The Board of Directors did not adjust the exercise price of the stock options outstanding to reflect the 5% stock dividends (dollars in thousands, except per share amounts):

|                                   | Number of<br>Options | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|----------------------|---|--|---------------------------------|
| Outstanding at December 31, 2006  | 490,632              | \$ 8.04                                   |  |                                 |
| Exercised                         | (7,166)              | 5.67                                      |  |                                 |
| Forfeited                         | (3,859)              | 10.00                                     |  |                                 |
| Outstanding at September 30, 2007 | 479,607              | \$ 8.06                                   | 5.9 years  | \$ 72                           |

The total intrinsic value of options exercised during the three and nine months ended September 30, 2007 was \$16,675. There was no tax benefit recognized in connection with the exercised stock options. The total intrinsic value of options exercised during the three and nine months ended September 30, 2006 was \$12,884 and \$106,734, respectively and the tax benefit relating to stock options exercised was \$0 and \$37,000, respectively.

- (6) **Sale of Branch.** On February 1, 2007, the Company entered into a sale/leaseback transaction for its Galt Ocean Mile branch facility. No gain or loss was recognized on this transaction.
- (7) **Common Stock Dividend.** On May 31, 2007, the Company's board of directors declared a 5% stock dividend to shareholders of record on June 12, 2007 and paid on July 12, 2007.

(continued)

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Review by Independent Registered Public Accounting Firm**

Hacker, Johnson & Smith PA, the Company's independent registered public accounting firm, have made a limited review of the interim financial data as of September 30, 2007, and for the three- and nine-month periods ended September 30, 2007 and 2006, presented in this document, in accordance with standards established by the Public Company Accounting Oversight Board.

Their report furnished pursuant to Article 10 of Regulation S-X is included herein.



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**Report of Independent Registered Public Accounting Firm**

OptimumBank Holdings, Inc.

Fort Lauderdale, Florida:

We have reviewed the accompanying condensed consolidated balance sheet of OptimumBank Holdings, Inc. and Subsidiary (the Company) as of September 30, 2007, and the condensed consolidated statements of earnings for the three- and nine-month periods ended September 30, 2007 and 2006 and the related condensed consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of earnings, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 7, 2007, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA

Fort Lauderdale, Florida

October 19, 2007

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Item 2. Management's Discussion and Analysis****of Financial Condition and Results of Operations****Comparison of September 30, 2007 and December 31, 2006****Liquidity and Capital Resources**

The Company's primary sources of cash during the nine months ended September 30, 2007 were from an increase in securities sold under agreement to repurchase of approximately \$21.0 million, principal repayments of securities held to maturity of approximately \$7.6 million, net loan repayments of approximately \$2.9 million and cash provided from operating activities of approximately \$3.0 million. Cash was used primarily for purchases of securities of approximately \$32.5 million and to fund deposit withdrawals of approximately \$5.7 million. At September 30, 2007, the Company had time deposits of approximately \$74.8 million that mature in one year or less. At September 30, 2007, the Company exceeded its regulatory liquidity requirements. Management believes that, if so desired, it can adjust the rates on time deposits to retain or attract deposits in a changing interest-rate environment.

The following table shows selected information for the periods ended or at the dates indicated:

|  | Nine Months<br>Ended<br>September 30,<br>2007 | Year Ended<br>December 31,<br>2006 | Nine Months<br>Ended<br>September 30,<br>2006 |
|--|---|------------------------------------|---|
| Average equity as a percentage of average assets | 8.94%   | 9.12%                              | 9.16%   |
| Equity to total assets at end of period          | 8.82%   | 9.04%                              | 9.13%   |
| Return on average assets (1)                     | 0.70%   | 0.85%                              | 0.92%   |
| Return on average equity (1)                     | 7.83%   | 9.37%                              | 10.03%  |
| Noninterest expenses to average assets (1)       | 1.56%   | 1.67%                              | 1.69%   |

(1) Annualized for the nine months ended September 30, 2007 and 2006.

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Item 2. Management's Discussion and Analysis****of Financial Condition and Results of Operations, Continued****Off-Balance Sheet Arrangements**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and undisbursed loans in process. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the condensed consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and undisbursed loans in process is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party.

A summary of the amounts of the Company's financial instruments, with off-balance sheet risk at September 30, 2007, follows (in thousands):

|                              | <b>Contract<br/>Amount</b> |
|------------------------------|----------------------------|
| Commitments to extend credit | \$ 6,500                   |
| Undisbursed loans in process | \$ 250                     |

Management believes that the Company has adequate resources to fund all of its commitments and that substantially all its existing commitments will be funded in the next twelve months.

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Results of Operations**

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities.

|   | Three Months Ended September 30, |                                      |  |                    |                                      |                           |
|---|----------------------------------|--------------------------------------|--|--------------------|--------------------------------------|---------------------------|
|   | Average<br>Balance               | 2007<br>Interest<br>and<br>Dividends | Average<br>Yield/<br>Rate<br>(\$ in thousands) | Average<br>Balance | 2006<br>Interest<br>and<br>Dividends | Average<br>Yield/<br>Rate |
| <b>Interest-earning assets:</b>   |                                  |                                      |  |                    |                                      |                           |
| Loans   | \$ 172,935                       | 3,240                                | 7.49%  | \$ 176,927         | 3,223                                | 7.29%                     |
| Securities  | 58,349                           | 824                                  | 5.65   | 28,363             | 334                                  | 4.71                      |
| Other (1)   | 4,601                            | 66                                   | 5.74   | 4,591              | 64                                   | 5.58                      |
| <b>Total interest-earning assets/interest income</b>                                    | <b>235,885</b>                   | <b>4,130</b>                         | <b>7.00</b>                                    | <b>209,881</b>     | <b>3,621</b>                         | <b>6.90</b>               |
| Cash and due from banks   | 403                              |                                      |  | 324                |                                      |                           |
| Premises and equipment  | 3,316                            |                                      |  | 4,030              |                                      |                           |
| Other   | 2,980                            |                                      |  | 2,481              |                                      |                           |
| <b>Total assets</b>   | <b>\$ 242,584</b>                |                                      |  | <b>\$ 216,716</b>  |                                      |                           |
| <b>Interest-bearing liabilities:</b>  |                                  |                                      |  |                    |                                      |                           |
| Savings, NOW and money-market deposits  | 26,379                           | 308                                  | 4.67   | 10,899             | 93                                   | 3.41                      |
| Time deposits   | 93,963                           | 1,135                                | 4.83   | 110,239            | 1,262                                | 4.58                      |
| Borrowings (2)  | 89,045                           | 1,056                                | 4.74   | 71,475             | 749                                  | 4.19                      |
| <b>Total interest-bearing liabilities/ interest expense</b>                             | <b>209,387</b>                   | <b>2,499</b>                         | <b>4.77</b>                                    | <b>192,613</b>     | <b>2,104</b>                         | <b>4.37</b>               |
| Noninterest-bearing demand deposits   | 1,867                            |                                      |  | 614                |                                      |                           |
| Other liabilities   | 9,794                            |                                      |  | 3,627              |                                      |                           |
| Stockholders equity   | 21,536                           |                                      |  | 19,862             |                                      |                           |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 242,584</b>                |                                      |  | <b>\$ 216,716</b>  |                                      |                           |
| <b>Net interest income</b>  |                                  | <b>\$ 1,631</b>                      |  |                    | <b>\$ 1,517</b>                      |                           |
| Interest-rate spread (3)  |                                  |                                      | 2.23%  |                    |                                      | 2.53%                     |
| <b>Net interest margin (4)</b>  |                                  |                                      | <b>2.77%</b>                                   |                    |                                      | <b>2.89%</b>              |
| <b>Ratio of average interest-earning assets to average interest-bearing liabilities</b> | <b>1.13</b>                      |                                      |  | <b>1.09</b>        |                                      |                           |

(1) Includes interest-earning deposits with banks, federal funds sold and Federal Home Loan Bank stock dividends.

(2)

## Edgar Filing: OptimumBank Holdings, Inc. - Form 10QSB

Includes Federal Home Loan Bank advances, securities sold under agreements to repurchase, overnight borrowings and junior subordinated debenture.

- (3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (4) Net interest margin is net interest income divided by average interest-earning assets.

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities.

|  | Nine Months Ended September 30, |                 |                   |                   |                 |             |
|--|---------------------------------|-----------------|-------------------|-------------------|-----------------|-------------|
|  | 2007                            |                 |                   | 2006              |                 |             |
|  | Average                         | 2007            | Average           | Average           | 2006            | Average     |
|  | Balance                         | Interest        | Yield/            | Balance           | Interest        | Yield/      |
|  |                                 | and             | Rate              |                   | and             | Rate        |
|  |                                 | Dividends       | (\$ in thousands) |                   | Dividends       |             |
| <b>Interest-earning assets:</b>  |                                 |                 |                   |                   |                 |             |
| Loans  | \$ 177,116                      | 9,801           | 7.38%             | \$ 174,169        | 9,314           | 7.13%       |
| Securities   | 48,441                          | 1,978           | 5.44              | 26,134            | 896             | 4.57        |
| Other (1)  | 4,222                           | 183             | 5.78              | 3,763             | 153             | 5.42        |
| <b>Total interest-earning assets/interest income</b>                             | <b>229,779</b>                  | <b>11,962</b>   | <b>6.94</b>       | <b>204,066</b>    | <b>10,363</b>   | <b>6.77</b> |
| Cash and due from banks  | 343                             |                 |                   | 317               |                 |             |
| Premises and equipment   | 3,486                           |                 |                   | 4,047             |                 |             |
| Other  | 2,596                           |                 |                   | 2,448             |                 |             |
| <b>Total assets</b>  | <b>\$ 236,204</b>               |                 |                   | <b>\$ 210,878</b> |                 |             |
| <b>Interest-bearing liabilities:</b>   |                                 |                 |                   |                   |                 |             |
| Savings, NOW and money-market deposits   | 26,550                          | 890             | 4.47              | 8,932             | 158             | 2.36        |
| Time deposits  | 97,536                          | 3,471           | 4.74              | 109,150           | 3,511           | 4.29        |
| Borrowings (2)   | 83,694                          | 2,808           | 4.47              | 69,619            | 2,135           | 4.09        |
| <b>Total interest-bearing liabilities/ interest expense</b>                      | <b>207,780</b>                  | <b>7,169</b>    | <b>4.60</b>       | <b>187,701</b>    | <b>5,804</b>    | <b>4.12</b> |
| Noninterest-bearing demand deposits  | 1,741                           |                 |                   | 796               |                 |             |
| Other liabilities  | 5,577                           |                 |                   | 3,055             |                 |             |
| Stockholders equity  | 21,106                          |                 |                   | 19,326            |                 |             |
| <b>Total liabilities and stockholders equity</b>                                 | <b>\$ 236,204</b>               |                 |                   | <b>\$ 210,878</b> |                 |             |
| <b>Net interest income</b>   |                                 | <b>\$ 4,793</b> |                   |                   | <b>\$ 4,559</b> |             |
| Interest-rate spread (3)   |                                 |                 | 2.34%             |                   |                 | 2.65%       |
| Net interest margin (4)  |                                 |                 | 2.78%             |                   |                 | 2.98%       |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 1.11                            |                 |                   | 1.09              |                 |             |

(1) Includes interest-bearing deposits in banks, federal funds sold and Federal Home Loan Bank stock dividends.

(2)

## Edgar Filing: OptimumBank Holdings, Inc. - Form 10QSB

Includes Federal Home Loan Bank advances, securities sold under agreements to repurchase, overnight borrowings and junior subordinated debenture.

- (3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (4) Net interest margin is net interest income divided by average interest-earning assets.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Comparison of the Three-Month Periods Ended September 30, 2007 and 2006**

**General.** Net earnings for the three months ended September 30, 2007, were \$438,000 or \$.15 per basic and \$.14 per diluted share compared to net earnings of \$451,000 or \$.15 per basic and \$.14 per diluted share for the period ended September 30, 2006. This decrease in the Company's net earnings was primarily due to an increase in noninterest expenses and a decrease in noninterest income partially offset by an increase in net interest income.

**Interest Income.** Interest income increased to \$4.1 million for the three months ended September 30, 2007 from \$3.6 million for the three months ended September 30, 2006. Interest income on loans increased due primarily to an increase in the yield earned on the loans for the three months ended September 30, 2007. Interest on securities increased to \$824,000 due primarily to an increase in the average balance of the securities portfolio in 2007 and an increase in the average yield earned.

**Interest Expense.** Interest expense on borrowings increased to \$1.1 million for the three months ended September 30, 2007 from \$749,000 for the three months ended September 30, 2006 due primarily to an increase in the average balance of borrowings.

**Provision for Loan Losses.** The provision for loan losses is charged to earnings to bring the total allowance to a level deemed appropriate by management and is based upon historical experience, the volume and type of lending conducted by the Company, industry standards, the amount of nonperforming loans, general economic conditions, particularly as they relate to the Company's market areas, and other factors related to the estimated collectibility of the Company's loan portfolio. The Company recorded a provision for the three months ended September 30, 2007 of \$16,000 compared to \$12,000 for the same period in 2006. Management believes the balance in the allowance for loan losses of \$752,000 at September 30, 2007, is adequate.

**Noninterest Income.** Total noninterest income decreased to \$47,000 for the three months ended September 30, 2007, from \$108,000 for the three months ended September 30, 2006, primarily due to a decrease in loan prepayment fees collected.

**Noninterest Expenses.** Total noninterest expenses increased to \$959,000 for the three months ended September 30, 2007 from \$890,000 for the three months ended September 30, 2006, primarily due to the continued growth of the Company.

**Income Taxes.** Income taxes for the three months ended September 30, 2007, were \$265,000 (an effective rate of 37.7%) compared to income taxes of \$272,000 (an effective rate of 37.6%) for the three months ended September 30, 2006.



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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Comparison of the Nine-Month Periods Ended September 30, 2007 and 2006**

**General.** Net earnings for the nine months ended September 30, 2007, were \$1,240,000 or \$.42 per basic and \$.41 per diluted share compared to net earnings of \$1,454,000 or \$.49 per basic and \$.47 per diluted share for the period ended September 30, 2006. This decrease in the Company's net earnings was primarily due to an increase in noninterest expenses and the provision for loan losses and a decrease in noninterest income.

**Interest Income.** Interest income increased to \$12.0 million for the nine months ended September 30, 2007 from \$10.4 million for the nine months ended September 30, 2006. Interest on securities increased by \$1.1 million due primarily to an increase in the average balance of the securities portfolio in 2007 and an increase in the average yield earned. Interest income on loans increased by \$487,000 due primarily to an increase in the yield earned on the loans for the nine months ended September 30, 2007.

**Interest Expense.** Interest expense increased to \$7.2 million for the nine months ended September 30, 2007, from \$5.8 million for the nine months ended September 30, 2006. Interest expense on deposits increased primarily because of an increase in deposits and the average rate paid during 2007. Interest expense on borrowings increased to \$2.8 million for the nine months ended September 30, 2007 from \$2.1 million for the nine months ended September 30, 2006 due primarily to an increase in the average balance of borrowings.

**Provision for Loan Losses.** The provision for loan losses is charged to earnings to bring the total allowance to a level deemed appropriate by management and is based upon historical experience, the volume and type of lending conducted by the Company, industry standards, the amount of nonperforming loans, general economic conditions, particularly as they relate to the Company's market areas, and other factors related to the estimated collectibility of the Company's loan portfolio. The provision for the nine months ended September 30, 2007, was \$536,000 compared to \$145,000 for the same period in 2006. The increase in 2007 was due to the impairment in value of a collateral dependent single-family residential construction loan which was paid off in June 2007, through the sale of the underlying property. Charge-offs in the allowance for loan losses in the amount of \$758,000 related to this loan. Management believes the balance in the allowance for loan losses of \$752,000 at September 30, 2007, is adequate.

**Noninterest Income.** Total noninterest income decreased to \$440,000 for the nine months ended September 30, 2007, from \$560,000 for the nine months ended September 30, 2006 primarily as a result of gains recognized on the payoff of Federal Home Loan Bank advances of \$178,000 in 2006, partially offset by an increase in litigation settlement of \$62,000 in 2007.

**Noninterest Expenses.** Total noninterest expenses increased to \$2.8 million for the nine months ended September 30, 2007 from \$2.7 million for the nine months ended September 30, 2006, primarily due to the continued growth of the Company.

**Income Taxes.** Income taxes for the nine months ended September 30, 2007, were \$700,000 (an effective rate of 36.1%) compared to income taxes of \$853,000 (an effective rate of 37.0%) for the nine months ended September 30, 2006.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Item 3. Controls and Procedures**

- a. *Evaluation of Disclosure Controls and Procedures.* The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive and principal accounting officers of the Company concluded that the Company's disclosure controls and procedures were effective.
- b. *Changes in Internal Controls.* The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive and principal accounting officers.

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****PART II. OTHER INFORMATION****Item 6. Exhibits**

The following exhibits are filed with or incorporated by reference into this report. The exhibits denominated by (i) an asterisk (\*) were previously filed as a part of a Registration Statement on Form 10-SB under the Exchange Act, filed with the Federal Deposit Insurance Corporation on March 28, 2003; (ii) a double asterisk (\*\*) were previously filed as a part of an Annual Report on Form 10-KSB filed with the Securities and Exchange Commission ( SEC ) on March 30, 2004; (iii) a triple asterisk (\*\*\*) were previously filed as part of a current report on Form 8-K filed with the SEC on May 11, 2004; and (iv) a quadruple asterisk (\*\*\*\*) were previously filed as part of a Quarterly Report on Form 10-QSB filed with the SEC on August 12, 2004; (v) a quintuple asterisk (\*\*\*\*\* ) were previously filed as part of an Annual Report on Form 10-KSB filed with the SEC on March 31, 2005; and (vi) a sextuple asterisk (\*\*\*\*\*) were previously filed as part of an Annual Report on Form 10-KSB filed with the SEC on March 31, 2006.

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| ** 2.1             | Agreement and Plan of Reorganization between OptimumBank and OptimumBank Holdings, Inc. dated March 23, 2004 |
| *** 3.1            | Articles of Incorporation  |
| *** 3.3            | Bylaws   |
| **** 4.1           | Form of stock certificate  |
| ***** 10.1         | Amended and Restated Stock Option Plan   |
| * 10.2             | Non-employee Directors Fee Compensation and Stock Purchase Plan  |
| * 10.3             | Agreement between OptimumBank, Albert J. Finch and Richard L. Browdy dated June 14, 2002                     |
| ***** 14.1         | Code of Ethics for Chief Executive Officer and Senior Financial Officers                                     |
| 31.1               | Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act         |
| 31.2               | Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act         |
| 32.1               | Certification of Chief Executive Officer under §906 of the Sarbanes-Oxley Act of 2002                        |
| 32.2               | Certification of Chief Financial Officer under §906 of the Sarbanes-Oxley Act of 2002                        |

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**PART II. OTHER INFORMATION**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**OPTIMUMBANK HOLDINGS, INC.**  
(Registrant)

Date: November 6, 2007

By: /s/ Albert J. Finch  
Albert J. Finch, Chief Executive Officer

Date: November 6, 2007

By: /s/ Richard L. Browdy  
Richard L. Browdy, Chief Financial Officer