OptimumBank Holdings, Inc.
Form 10-Q
August 16, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

¨ **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 000-50755

OPTIMUMBANK HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Florida	**55-0865043**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

2477 East Commercial Boulevard, Fort Lauderdale, FL 33308

(Address of principal executive offices)

954-776-2332

(Registrant s telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 ¨ No ¨ *The registrant has not yet been phased into the interactive data requirements.

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 3,276,842 shares of Common Stock, $.01 par value, issued and outstanding as of August 16, 2010

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Cash and due from banks	$ 1,269	$ 1,556
Interest-bearing deposits with banks	9,499	8,506
Federal funds sold	31,168	26,722
Total cash and cash equivalents	41,936	36,784
Securities held to maturity (fair value of $29,210 and $76,984)	32,111	81,141
Loans, net of allowance for loan losses of $3,492 and $9,363	123,233	134,126
Federal Home Loan Bank stock	3,551	3,551
Premises and equipment, net	2,863	2,941
Foreclosed real estate	5,309	5,487
Accrued interest receivable	773	1,088
Deferred tax asset		772
Income taxes receivable	4,349	3,577
Other assets	461	490
Total assets	$ 214,586	$ 269,957
Liabilities and Stockholders Equity		
Liabilities:		
Noninterest-bearing demand deposits	264	199
Savings, NOW and money-market deposits	40,842	44,222
Time deposits	127,800	107,261
Total deposits	168,906	151,682
Federal Home Loan Bank advances	31,700	57,700
Other borrowings		41,800
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	1,428	945
Official checks	548	694
Other liabilities	791	693
Total liabilities	208,528	258,669
Stockholders equity:		
Common stock, $.01 par value; 6,000,000 shares authorized, 3,276,842 shares issued and outstanding	33	33

Additional paid-in capital	19,046	19,046
Accumulated deficit	(13,021)	(7,791)
Total stockholders equity	6,058	11,288
Total liabilities and stockholders equity	$ 214,586	$ 269,957

See Accompanying Notes to Condensed Consolidated Financial Statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Interest income:				
Loans	$ 1,588	$ 2,652	$ 3,489	$ 5,072
Securities	494	1,330	1,424	2,577
Other	19	3	33	3
Total interest income	2,101	3,985	4,946	7,652
Interest expense:				
Deposits	698	992	1,456	1,968
Borrowings	420	1,225	1,304	2,439
Total interest expense	1,118	2,217	2,760	4,407
Net interest income	983	1,768	2,186	3,245
Provision for loan losses	1,501	4,102	2,193	4,507
Net interest expense after provision for loan losses	(518)	(2,334)	(7)	(1,262)
Noninterest income:				
Service charges and fees	6	(24)	17	6
Loan prepayment fees	2		6	
Gain on sale of securities			1,344	
Other	7	1	10	2
Total noninterest income (expense)	15	(23)	1,377	8
Noninterest expenses:				
Salaries and employee benefits	488	546	910	1,089
Occupancy and equipment	150	161	302	317
Data processing	49	42	97	87
Professional fees	485	127	783	219
Insurance	13	7	27	23
Stationary and supplies	12	12	23	19
Foreclosed real estate	241	3	283	10
Regulatory assessment	131	168	319	239
Loss on early extinguishment of debt			3,699	
Other	52	55	157	128
Total noninterest expenses	1,621	1,121	6,600	2,131

Loss before income tax benefit	(2,124)	(3,478)	(5,230)	(3,385)
Income tax benefit		(1,308)		(1,273)
Net loss	$ (2,124)	$ (2,170)	$ (5,230)	$ (2,112)
Net loss per share:				
Basic	$ (.65)	$ (.66)	$ (1.60)	$ (.64)
Diluted	$ (.65)	$ (.66)	$ (1.60)	$ (.64)
Dividends per share	$	$	$	$

See Accompanying Notes to Condensed Consolidated Financial Statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders Equity

Six Months Ended June 30, 2010 and 2009

(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance at December 31, 2008	3,120,992	$ 31	18,494	4,244	(4)	22,765
Comprehensive loss:						
Net loss for the six months ended June 30, 2009 (unaudited)				(2,112)		(2,112)
Net change in unrealized loss on security available for sale (unaudited)					1	1
Comprehensive loss (unaudited)						(2,111)
5% stock dividend (fractional shares paid in cash) (unaudited)	155,850	2	552	(554)		
Balance at June 30, 2009 (unaudited)	3,276,842	$ 33	19,046	1,578	(3)	20,654
Balance at December 31, 2009	3,276,842	$ 33	19,046	(7,791)		11,288
Net loss for the six months ended June 30, 2010 (unaudited)				(5,230)		(5,230)
Balance at June 30, 2010 (unaudited)	3,276,842	$ 33	19,046	(13,021)		6,058

See Accompanying Notes to Condensed Consolidated Financial Statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net loss	$ (5,230)	$ (2,112)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	86	95
Provision for loan losses	2,193	4,507
Deferred income taxes	772	
Increase in income taxes receivable	(772)	
Gain on sale of securities	(1,344)	
Loss on early extinguishment of debt	3,699	
Net amortization of fees, premiums and discounts	(5)	(424)
Decrease (increase) in other assets	29	(1,413)
Provision for losses on foreclosed real estate		7
Loss on sale of foreclosed real estate	82	
Write down of foreclosed real estate	126	
Decrease in accrued interest receivable	315	58
(Decrease) increase in official checks and other liabilities	(48)	432
Net cash (used in) provided by operating activities	(97)	1,150
Cash flows from investing activities:		
Purchases of securities held to maturity		(24,032)
Principal repayments of securities held to maturity	5,019	12,006
Net decrease (increase) in loans	8,099	(688)
Proceeds from sale of securities	45,428	
Purchase of premises and equipment	(8)	(11)
Proceeds from sale of foreclosed real estate, net	503	
Purchase of Federal Home Loan Bank stock		(25)
Net cash provided by (used in) investing activities	59,041	(12,750)
Cash flows from financing activities:		
Net increase in deposits	17,224	28,547
Net decrease in other borrowings	(44,764)	
Net increase in advance payments by borrowers for taxes and insurance	483	627
Repayments of Federal Home Loan Bank advances	(26,735)	
Net cash (used in) provided by financing activities	(53,792)	29,174
Net increase in cash and cash equivalents	5,152	17,574
Cash and cash equivalents at beginning of the period	36,784	3,220

Cash and cash equivalents at end of the period	$ 41,936	$ 20,794
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 2,860	$ 4,285
Income taxes	$	$ 300
Noncash investing and financing activities:		
Change in accumulated other comprehensive loss, net change in unrealized loss on security available for sale	$	$ 1
Common stock dividend	$	$ 554
Loans transferred to foreclosed real estate	$ 533	$

See Accompanying Notes to Condensed Consolidated Financial Statements.

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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. The Holding Company s only business is the operation of the Bank and its subsidiaries. The Bank s deposits are insured up to applicable limits 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. The Bank s wholly-owned subsidiaries are OB Real Estate Management, LLC, OB Real Estate Holdings, LLC, OB Real Estate Holdings 1503, LLC, and OB Real Estate Holdings 1695, LLC, all of which were formed in 2009. OB Real Estate Management, LLC is primarily engaged in managing foreclosed real estate. OB Real Estate Holdings, LLC, OB Real Estate Holdings 1503, LLC, and OB Real Estate Holdings 1695, LLC, hold and dispose of foreclosed real estate.

In the opinion of 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 June 30, 2010, and the results of operations for the three- and six-month periods ended June 30, 2010 and 2009, and cash flows for the six-month periods ended June 30, 2010 and 2009. The results of operations for the three and six months ended June 30, 2010, are not necessarily indicative of the results to be expected for the full year.

(2) ***Securities.*** Securities have been classified according to management s intent. The carrying amount of securities and approximate fair values are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity:				
At June 30, 2010:				
Mortgage-backed securities	$ 32,011	$ 82	$ (2,983)	$ 29,110
State of Israel bond	100			100
	$ 32,111	$ 82	$ (2,983)	$ 29,210
At December 31, 2009:				
Mortgage-backed securities	$ 81,041	$ 1,567	$ (5,724)	$ 76,884
State of Israel bond	100			100
	$ 81,141	$ 1,567	$ (5,724)	$ 76,984

During the first quarter of 2010, the Company sold twenty-two securities in order to downsize and deleverage its balance sheet. This action was taken in an effort to comply with a significant increase in the regulatory capital requirements imposed on the Bank under a Consent Order issued by the Federal Deposit Insurance Corporation and State of Florida Office of Financial Regulation (see Note 8). The securities were sold for gross proceeds of $45.4 million. A gain of $1.3 million was recognized from the sale of these securities.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) ***Securities, Continued.*** Securities with gross unrealized losses at June 30, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Held to Maturity-				
Mortgage-backed securities	$	$	$ (2,983)	$ 25,891

Management evaluates securities for other-than-temporary impairment approximately on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. A security is impaired if the fair value is less than its carrying value at the financial statement date. When a security is impaired, the Company determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment (OTTI) losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in operations. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in operations is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive loss. However, the Company has not recognized any loss in other comprehensive loss because management does not believe the market value of the securities are significantly depressed. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the security; (iii) the overall transaction structure (the Company s position within the structure, the aggregate, near-term financial performance of the underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, and discounted cash flows); and (iv) the timing and magnitude of a break in modeled cash flows.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) ***Securities, Continued.*** In evaluating mortgage-backed securities with unrealized losses greater than 12 months, management utilizes various resources, including input from independent third party firms to perform an analysis of expected future cash flows. The process begins with an assessment of the underlying collateral backing the mortgage pools. Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. The data for the individual borrowers in the underlying mortgage pools are generally segregated by state, FICO score at issue, loan to value at issue and income documentation criteria. Mortgage pools are evaluated for current and expected levels of delinquencies and foreclosures, based on where they fall in the proscribed data set of FICO score, geographics, LTV and documentation type and a level of loss severity is assigned to each security based on its experience. The above-described historical data is used to develop current and expected measures of cumulative default rates as well as ultimate loss frequency and severity within the underlying mortgages. This reveals the expected future cash flows within the mortgage pool. The data described above is then input to an industry recognized model to assess the behavior of the particular security tranche owned by the Company. Significant inputs in this process include the structure of any subordination structures, if applicable, and are dictated by the structure of each particular security as laid out in the offering documents. The forecasted cash flows from the mortgage pools are input through the security structuring model to derive expected cash flows for the specific security owned by the Company to determine if the future cash flows are expected to exceed the book value of the security. The values for the significant inputs are updated on a regular basis. Based on management s analysis, there was no OTTI charge during the first six months of 2010 or 2009.

The unrealized losses on twelve investment securities were caused by market conditions. It is expected that the securities would not be settled at a price less than the book value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Balance at beginning of period	$ 6,843	$ 1,827	$ 9,363	$ 1,906
Charge-offs, net of recoveries	(4,852)	(2,632)	(8,064)	(3,116)
Provision for loan losses	1,501	4,102	2,193	4,507
Balance at end of period	$ 3,492	$ 3,297	$ 3,492	$ 3,297

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) ***Loan Impairment and Credit Losses, Continued.*** The following summarizes the impaired loans at June 30, 2010 and December 31, 2009 (in thousands):

	At June 30, 2010	At December 31, 2009
Collateral dependent loans identified as impaired:		
Gross loans with no related allowance for loan losses	$ 26,748	$ 21,846
Gross loans with related allowance for losses recorded	975	18,032
Less allowance on these loans	(112)	(5,542)
Net loans with related allowance	863	12,490
Net investment in collateral dependent impaired loans	27,611	34,336
Noncollateral dependent loans identified as impaired:		
Gross loans with no related allowance for loan losses	12,335	
Gross loans with related allowance for losses recorded	1,174	3,623
Less allowance on these loans	(11)	(65)
Net investment in noncollateral dependent impaired loans with related allowance	1,163	3,558
Net investment in noncollateral dependent impaired loans	13,498	3,558
Net investment in impaired loans	$ 41,109	$ 37,894

The average net investment in impaired loans and interest income recognized and received on impaired loans is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Average net investment in impaired loans	$ 36,592	$ 9,448	$ 37,165	$ 9,981
Interest income recognized on impaired loans	$ 218	$ 26	$ 452	$ 86
Interest income received on impaired loans	$ 184	$ 26	$ 420	$ 86

At June 30, 2010 and December 31, 2009, the Company had no loans over ninety days past due still accruing interest. Nonaccrual loans were as follows (in thousands):

	At June 30, 2010	At December 31, 2009
Nonaccrual loans	$ 26,413	$ 23,848

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(4) ***Regulatory Capital.*** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at June 30, 2010 of the regulatory capital requirements and the Bank s capital on a percentage basis:

	Bank	Regulatory Requirement
Tier I capital to total average assets	5.10%	8.00%*
Tier I capital to risk-weighted assets	6.84%	4.00%
Total capital to risk-weighted assets	8.10%	12.00%*

* On July 15, 2010, the Bank became subject to these increased capital requirements imposed under the Consent Order, as discussed in Note 8. The Bank is currently not in compliance with these capital ratios.

(5) ***Loss Per Share.*** Basic loss per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Basic and diluted loss per share is the same due to the net loss incurred by the Company. All amounts reflect the 5% stock dividend declared in May 2009. Loss per common share has been computed based on the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted-average number of common shares outstanding used to calculate basic and diluted loss per common share	3,276,842	3,276,842	3,276,842	3,276,842

(6) ***Stock-Based Compensation.*** As of December 31, 2005, all stock options were fully vested and no options have been granted since 2005; therefore, no stock-based compensation has been recognized.

The Company established an Incentive Stock Option Plan (the Plan) for officers, directors and employees of the Company and reserved 630,720 (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. The options must be exercised within ten years from the date of grant. At June 30, 2010, 222,044 options were available for grant.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(6) ***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 dividend declared in May 2009:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	419,956	$ 7.13		
Forfeited	(100,870)	6.79		
Outstanding and exercisable at June 30, 2010	319,086	$ 7.49	3.6 years	$

(7) ***Fair Value Measurements.*** Impaired collateral-dependent loans and foreclosed real estate are carried at fair value when the current collateral value less estimated selling costs is lower than the carrying value of the loan or foreclosed real estate. Those impaired collateral-dependent loans and foreclosed real estate which are measured at fair value on a nonrecurring basis are as follows (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded in Operations For the Six Months Ended June 30, 2010
As of June 30, 2010:						
Impaired loans [1]	$ 15,431			15,431	3,775	2,483
Foreclosed real estate	$ 5,309			5,309	208	126

[1] Loans with a carrying value of $12,180,000 were measured for impairment using Level 3 inputs and had a fair value in excess of carrying value.

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded in Operations During 2009
As of December 31, 2009:						

Impaired loans [2]	$ 13,966	13,966	8,526	8,462
Foreclosed real estate	$ 5,487	5,487	82	8

(2) Loans with a carrying value of $20,370,000 were measured for impairment using Level 3 inputs and had a fair value in excess of carrying value.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) ***Fair Value Measurements, Continued.*** The estimated fair values of the Company s financial instruments were as follows (in thousands):

	At June 30, 2010		At December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 41,936	$ 41,936	$ 36,784	$ 36,784
Securities held to maturity	32,111	29,210	81,141	76,984
Loans	123,233	123,246	134,126	134,365
Federal Home Loan Bank stock	3,551	3,551	3,551	3,551
Accrued interest receivable	773	773	1,088	1,088
Financial liabilities:				
Deposit liabilities	168,906	169,472	151,682	152,381
Federal Home Loan Bank advances	31,700	33,503	57,700	59,206
Other borrowings			41,800	43,537
Junior subordinated debenture	5,155	4,708	5,155	4,875
Off-balance sheet financial instruments				

Discussion regarding the assumptions used to compute the fair values of financial instruments can be found in Note 1 to the consolidated financial statements included in the Company s annual report on Form 10-K for the year ended December 31, 2009.

(8) ***Regulatory Matters.*** Effective April 16, 2010, the Bank, entered into a Stipulation with the Federal Deposit Insurance Corporation (the FDIC) and the Florida Office of Financial Regulation (the OFR). Pursuant to the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation, to the issuance of a Consent Order by the FDIC and the OFR, also effective as of April 16, 2010.

The Consent Order represents an agreement among the Bank, the FDIC and the OFR as to areas of the Bank s operations that warrant improvement and presents a plan for making those improvements. The Consent Order imposes no fines or penalties on the Bank. The Consent Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and the OFR.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(8) ***Regulatory Matters, Continued.*** Pursuant to the Consent Order, the Bank s Board of Directors is required to increase its participation in the affairs of the Bank. This participation shall include comprehensive, documented meetings to be held no less frequently than monthly. Within 30 days from the effective date of the Consent Order, the Board must also establish a Board committee to oversee the Bank s compliance with the Consent Order, and establish a loan committee consisting of at least one independent director to approve extensions of credit and review problem loans. The Board must also develop, submit for comment to the FDIC and the OFR, and approve, an education plan for the Board of Directors.

Within sixty days of the effective date of the Consent Order, the Bank shall retain qualified management, including a chief executive officer, a chief lending officer and a chief financial officer. The Bank must also develop, submit for comment to the FDIC and the OFR, and approve, a management plan for the purpose of providing qualified management for the Bank. During the life of the Consent Order, the Bank may not add any individual to the Bank s Board of Directors or employ any individual as a senior executive officer without the prior non-objection of the FDIC and the OFR.

Within ninety days of the effective date of the Consent Order and, thereafter, during the life of the Consent Order, the Bank shall achieve and maintain a Tier 1 Leverage Capital Ratio of not less than 8% and a Total Risk Based Capital Ratio of not less than 12%. In the event such ratios fall below such levels, the Bank shall notify the FDIC and the OFR and shall increase capital in an amount sufficient to reach the required ratios within ninety days of such notice. The Company is exploring strategic alternatives intended to result in attaining such capital ratios, but is currently not in compliance with these capital ratios.

While the Consent Order remains in effect, the Bank shall, within thirty days of the receipt of any official Report of Examination, eliminate from its books any remaining balance of any assets classified Loss and 50% percent of those classified Doubtful , unless otherwise approved in writing by the FDIC and the OFR. Within sixty days from the effective date of the Consent Order, the Bank shall formulate a plan, subject to approval by the FDIC and the OFR, to reduce the Bank s risk exposure in each asset, or relationship in excess of $500,000 classified Substandard or Doubtful by the FDIC in September 2009.

In the plan to reduce the Bank s classified assets, the Bank shall also reduce the aggregate balance of assets classified Substandard or Doubtful by the FDIC in September 2009, other than the Bank s private label mortgage backed securities, in accordance with the following schedule: (i) within 180 days, a 25% reduction; (ii) within 360 days, a 45% reduction; (iii) within 540 days, a 60% reduction, and; (iv) within 720 days, a 75% reduction. The Bank is on schedule to meet the first and second targeted goals. The Bank anticipates needing to successfully work out an appropriate amount of Substandard assets to meet the third and fourth targeted goals. Bank management is actively trying to reduce the amount of these Substandard assets.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(8) ***Regulatory Matters, Continued.*** Within sixty days from the effective date of the Consent Order, the Bank must develop, submit for comment to the FDIC and the OFR, approve and implement, a plan to reduce the volume of the Bank s private label mortgage-backed securities adversely classified by the FDIC in September 2009.

Beginning with the effective date of the Consent Order, the Bank may not extend any credit to, or for the benefit of, any borrower who has a loan that has been charged off or classified Loss or Doubtful and is uncollected. Additionally, during the life of the Consent Order, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been classified Substandard or Special Mention , and is uncollected, unless the Bank documents that such extension of credit is in the Bank s best interest.

Within sixty days from the effective date of the Consent Order, the Bank shall perform a risk segmentation analysis with respect to any concentration cited by the FDIC, including commercial real estate loans. The Bank shall also develop a plan, acceptable to the FDIC and OFR, to reduce any segment of the portfolio deemed by the FDIC or OFR to be an undue concentration of credit.

Within sixty days from the effective date of the Consent Order, the Bank shall revise, adopt, and implement the following written policies, plans or programs and incorporate any changes recommended by the FDIC or the OFR:

- Lending and collection policies
- Investment policy
- Liquidity, contingency funding and funds management plan
- Interest rate risk management policy
- Internal loan review and grading system
- Policy for internal routine and control

Within thirty days from the effective date of the Consent Order, the Bank shall develop an internal audit program that establishes procedures to protect the integrity of the Bank s operational and accounting systems acceptable to the FDIC and OFR.

The Bank shall also be required to maintain a fully funded Allowance for Loan and Lease Losses (ALLL), the adequacy of which shall be satisfactory to the FDIC and the OFR. The Board of Directors shall quarterly review the adequacy of the ALLL. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered. The Bank s policy for determining the adequacy of the Bank s ALLL and its implementation shall be satisfactory to the FDIC and OFR.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(8) ***Regulatory Matters, Continued.*** Within sixty days from the effective date of the Consent Order, the Bank shall prepare a strategic business plan covering the overall operation of the Bank, and formulate and implement a plan to improve and sustain Bank earnings. Additionally, the Bank must prepare a budget and update the profit plan by November 30th of each year. All such items must be submitted to the FDIC and the OFR for comment.

Throughout the life of the Consent Order, the Bank shall not accept, renew, or rollover any brokered deposit, and comply with the restrictions on the effective yields on deposits exceeding national averages. The Bank has not accepted, renewed or rolled over any brokered deposits since December 2009; therefore, that restriction is not expected to alter the Bank s current deposit gathering activities. With respect to the yield limitations, it is possible that the Bank could experience a decrease in deposit inflows, or the migration of current deposits to competitor institutions, if other institutions offer higher interest rates than those permitted to be offered by the Bank.

While the Consent Order is in effect, the Bank shall notify the FDIC and the OFR, at least sixty days prior to undertaking asset growth in excess of 10% or more per annum or initiating material changes in asset or liability composition.

While the Consent Order is in effect, the Bank shall not declare or pay dividends or bonuses without the prior written approval of the FDIC. Anticipating this restriction on the Bank s ability to declare dividends, the Company has recently deferred interest payments on its trust preferred securities and may continue to do so for up to twenty consecutive quarters. This restriction on the Bank s ability to pay dividends could limit the ability of the Company to pay the ongoing expenses of being publicly held and the expenses of raising capital to the extent that funds of the holding company are insufficient for such purposes.

Within thirty days of the end of each calendar quarter following the effective date of the Consent Order, the Bank shall furnish written progress reports to the FDIC and the OFR detailing the form, manner, and results of any actions taken to secure compliance.

The Bank has developed comprehensive plans to address all of the requirements of the Consent Order. Management believes that the Bank is currently in substantial compliance with all the requirements of the Consent Order except for the Bank s failure to attain the regulatory capital ratio requirements. The Bank is actively pursuing strategic alternatives intended to result in attaining such capital ratios, but is uncertain as to whether it will be able to achieve material compliance with these required ratios.

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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 June 30, 2010, and for the three- and six-month periods ended June 30, 2010 and 2009, 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 June 30, 2010, and the condensed consolidated statements of operations for the three- and six-month periods ended June 30, 2010 and 2009 and the related condensed consolidated statements of stockholders equity and cash flows for the six-month periods ended June 30, 2010 and 2009. 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, 2009, and the related consolidated statements of operations, stockholders equity and cash flows for the year then ended (not presented herein); and in our report dated April 14, 2010, 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, 2009, 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

August 13, 2010

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto presented elsewhere in this report. For additional information, refer to the financial statements and footnotes for the year ended December 31, 2009 in the Annual Report on Form 10-K.

Recent Regulatory Enforcement Action

On April 16, 2010, the Bank consented to the issuance of a Cease and Desist Order (Consent Order) by the FDIC and the State of Florida Office of Financial Regulation (OFR). The Consent Order covers areas of the Bank s operations that warrant improvement and various requirements in making those improvements. A detailed discussion of the Consent Order is contained in Footnote 8 to the condensed consolidated financial statements contained in this report. The Bank has developed comprehensive plans to address all of the requirements of the Consent Order; however, the Bank is currently not in compliance with the increased regulatory capital ratios required by the Consent Order. The Bank is actively pursuing strategic alternatives intended to result in attaining such capital ratios, but is uncertain as to whether it will be able to achieve material compliance with these ratios, as well as other quantitative targets or requirements of the Consent Order, including the timetable for the reduction of its adversely classified loans.

Financial Condition at June 30, 2010 and December 31, 2009

Overview

Our total assets declined by $55.4 million to $214.6 million at June 30, 2010, from $270.0 million at December 31, 2009, due to the downsizing of our balance sheet in the first quarter of 2010. The Company downsized in order to increase the Bank s regulatory capital ratios in our efforts to comply with the Consent Order which imposes significantly increased capital requirements on the Bank. We sold $44.1 million of mortgage-backed securities and collateralized mortgage obligations, and utilized the proceeds of the securities sales and other available cash to prepay approximately $57.8 million in FHLB advances and reverse repurchase agreements secured by these securities. We realized a loss from prepayment penalties on the borrowings of approximately $3.7 million, offset by a gain on sale of approximately $1.3 million from the sale of the securities, resulting in a $2.4 million net expense on the restructuring in the first quarter of 2010. As a result of the downsizing, the Company has significantly reduced its reliance on borrowings which are generally considered a more volatile source of funding than retail deposits.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Continued

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

	Six Months Ended June 30, 2010	Year Ended December 31, 2009	Six Months Ended June 30, 2009
Average equity as a percentage of average assets	3.72%	7.62%	8.35%
Equity to total assets at end of period	2.82%	4.18%	7.29%
Return on average assets (1)	(4.44)%	(4.23)%	(1.58)%
Return on average equity (1)	(119.11)%	(55.55)%	(18.90)%
Noninterest expenses to average assets (1)	5.60%	1.73%	1.59%

(1) Annualized for the six months ended June 30, 2010 and 2009.

We continue to experience the adverse effects of a severe downturn in the real estate market in which we operate, primarily south Florida, leading to a significant increase in defaults by borrowers compared to historical periods, a significant increase in loans charged-off, a reduction in the value of real estate serving as collateral for our loans, and declines in values of foreclosed real estate. Loan demand in our local Florida market has remained weak. Management, however, is committed to minimizing further losses in the loan portfolio.

Liquidity and Sources of Funds

The Bank s sources of funds include customer deposits, advances from the FHLB, principal repayments of investment securities, loan repayments, foreclosed real estate sales, the use of Federal Funds markets, net income, if any, and loans taken out at the Federal Reserve discount window.

Deposits are our primary source of funds. Under the Consent Order, the interest rates that we pay on our market area deposits and our ability to accept brokered deposits is restricted. The Bank has not accepted, renewed or rolled over any brokered deposits since December 2009; therefore, that restriction is not expected to alter the Bank s current deposit gathering activities. With respect to the yield limitations, it is possible that the Bank could experience a decrease in deposit inflows, or the migration of current deposits to competitor institutions, if other institutions offer higher interest rates than those permitted to be offered by the Bank. Despite these yield limitations, we believe that we have to the ability to adjust rates on our deposits to attract or retain deposits as needed.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Continued

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. At June 30, 2010, the Bank had outstanding borrowings of $31.7 million, against its $31.7 million in established borrowing capacity with the FHLB. The Bank s borrowing facility is subject to collateral and stock ownership requirements, as well as prior FHLB consent to each advance. The use of such Federal Funds line is subject to certain conditions. In April 2010, the Bank obtained an available discount window credit line with the FRB of approximately $900,000. The FRB line is subject to collateral requirements, must be repaid within 90 days, and each advance is subject to prior FRB consent. We measure and monitor our liquidity daily and believe our liquidity sources are adequate to meet our operating needs.

The Company, on an unconsolidated basis, typically relies on dividends from the Bank to fund its operating expenses, primarily expenses of being publicly held, and to make interest payments on its outstanding trust preferred securities. Under the Consent Order, the Bank is currently unable to pay dividends without prior regulatory approval. In addition, we may not pay interest payments on the trust preferred securities or dividends on our common stock, incur any additional indebtedness at the holding company level, or redeem our common stock without the prior regulatory approval of the Federal Reserve Bank of Atlanta. Since January 2010, we have deferred interest payments on our trust preferred securities.

Capital Resources

The FDIC has established minimum requirements for capital adequacy for state non-member banks. As of June 30, 2010, the Bank met the capital requirements of an adequately capitalized institution. For more information on capital requirements, see the discussion under the subheadings Capital Adequacy Requirements in the section Supervision and Regulation included in Item 1 of the Company s 2009 10-K. The following table summarizes the capital measures of the Bank at June 30, 2010:

			FDIC Guideline Requirements		
(Dollars in thousands)	**June 30, 2010**	**December 31, 2009**	**Adequately**	**Well-Capitalized**	**Consent Order**
Tier I risk-based capital ratio	6.84	8.93	4.00	6.00	*
Total risk-based capital ratio	8.10	10.23	8.00	10.00	12.00
Leverage ratio	5.10	5.85	4.00	5.00	8.00

* No additional requirement is established by the Consent Order

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Continued

The Bank is subject to additional capital requirements under a Consent Order with the FDIC and OFR. The Consent Order requires that no later than July 15, 2010, and during the life of the Consent Order, the Bank shall maintain: (a) a Tier 1 capital to total assets leverage ratio (Leverage ratio) at least equal to or greater than 8%; and (b) a ratio of qualifying total capital to risk-weighted assets (Total risk-based capital ratio) at least equal to or greater than 12%. The Bank does not currently meet these requirements.

The Company is taking steps to pursue strategic alternatives to raise additional capital, including equity financing transactions that could result in a change of control of the Company or may be dilutive to existing shareholders. Management is uncertain as to whether the Company will be successful in raising sufficient capital, if any, to meet the increased capital ratios required by the Consent Order.

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 are commitments to extend credit and may 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 amounts of these instruments reflect the extent of the Company s involvement in these financial 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. As of June 30, 2010, the Company has no commitments to extend credit.

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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 June 30,					
	2010			2009		
	Average Balance	Interest and Dividends	Average Yield/ Rate	Average Balance	Interest and Dividends	Average Yield/ Rate
	($ in thousands)					
Interest-earning assets:						
Loans	$ 132,398	$ 1,588	4.80%	$ 161,369	$ 2,652	6.57%
Securities	33,759	494	5.85	91,678	1,330	5.80
Other (1)	34,684	19	.22	13,213	3	.09
Total interest-earning assets/interest income	200,841	2,101	4.18	266,260	3,985	5.99
Cash and due from banks	1,031			2,994		
Premise and equipment	2,889			3,036		
Other	12,648			2,029		
Total assets	$ 217,409			$ 274,319		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	44,286	122	1.10	38,471	191	1.99
Time deposits	112,922	576	2.04	94,647	801	3.39
Borrowings (2)	41,470	420	4.05	115,655	1,225	4.24
Total interest-bearing liabilities/interest expense	198,678	1,118	2.25	248,773	2,217	3.56
Noninterest-bearing demand deposits	480			430		
Other liabilities	10,958			3,174		
Stockholders equity	7,293			21,942		
Total liabilities and stockholders equity	$ 217,409			$ 274,319		
Net interest income		$ 983			$ 1,768	
Interest-rate spread (3)			1.93%			2.43%
Net interest margin (4)			1.96%			2.66%

Ratio of average interest-earning assets to average interest-bearing liabilities	1.01	1.07

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

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.

	Six Months Ended June 30,					
	2010			2009		
	Average Balance	Interest and Dividends	Average Yield/ Rate	Average Balance	Interest and Dividends	Average Yield/ Rate
	($ in thousands)					
Interest-earning assets:						
Loans	$ 137,247	$ 3,489	5.08%	$ 160,984	$ 5,072	6.30%
Securities	50,991	1,424	5.59	90,084	2,577	5.72
Other (1)	32,487	33	.20	9,680	3	.06
Total interest-earning assets/interest income	220,725	4,946	4.48	260,748	7,652	5.87
Cash and due from banks	1,361			2,355		
Premises and equipment	2,909			3,057		
Other	10,837			1,559		
Total assets	$ 235,832			$ 267,719		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	44,663	306	1.37	35,287	367	2.08
Time deposits	109,275	1,150	2.10	90,679	1,601	3.53
Borrowings (2)	65,534	1,304	3.98	116,293	2,439	4.19
Total interest-bearing liabilities/interest expense	219,472	2,760	2.52	242,259	4,407	3.64
Noninterest-bearing demand deposits	504			425		
Other liabilities	7,074			2,688		
Stockholders equity	8,782			22,347		
Total liabilities and stockholders equity	$ 235,832			$ 267,719		
Net interest income		$ 2,186			$ 3,245	
Interest-rate spread (3)			1.96%			2.23%
Net interest margin (4)			1.98%			2.49%

Ratio of average interest-earning assets to average interest-bearing liabilities	1.01	1.08

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

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Comparison of the Three-Month Periods Ended June 30, 2010 and 2009

General. Net loss for the three months ended June 30, 2010, was $(2.1) million or $(.65) per basic and diluted share compared to a net loss of $(2.2) million or $(.66) per basic and diluted share for the period ended June 30, 2009. The decrease in net loss is due to a decrease in the provision for loan losses of $2.6 million, partially offset by a decrease in the income tax benefit of $1.3 million, a decrease in net interest income of $.8 million and an increase in noninterest expenses of $.5 million.

Interest Income. Interest income on loans decreased to $1.6 million due primarily to a decrease in the average yield earned from 6.57% for the three months ended June 30, 2009 to 4.80% for the three months ended June 30, 2010 and a decrease in the average balance. Interest on securities decreased to $494,000 due primarily to a decrease in the average balance of the securities portfolio in 2010.

Interest Expense. Interest expense on deposits decreased to $698,000 for the three months ended June 30, 2010, from $992,000 for the three months ended June 30, 2009. Interest expense decreased primarily because of a decrease in the average yield paid on deposits during 2010 partially offset by an increase in the average balance. Interest expense on borrowings decreased to $420,000 primarily due to a decrease in the average balance of borrowings due to the early pay-off of Federal Home Loan Bank advances and other borrowings in 2010.

Provision for Loan Losses. The provision for the three months ended June 30, 2010, was $1.5 million compared to a provision of $4.1 million for the same period in 2009. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management. Management s periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower s ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled $3.5 million or 2.76% of loans outstanding at June 30, 2010, compared to $9.4 million, or 6.54% of loans outstanding at December 31, 2009. The decrease is due to the use of specific reserves for loan charge-offs. Management believes the balance in the allowance for loan losses at June 30, 2010 is adequate.

Noninterest Income. Total noninterest income increased to $15,000 for the three months ended June 30, 2010, from $(23,000) for the three months ended June 30, 2009, primarily due to the reversal in 2009 of late loan fees previously thought to be collectable.

Noninterest Expenses. Total noninterest expenses increased to $1.6 million for the three months ended June 30, 2010 from $1.1 million for the three months ended June 30, 2009, primarily due to an increase in professional fees relating to consulting services and an increase in foreclosed real estate expense due to a loss on sale of foreclosed real estate of $82,000 and a write-down of foreclosed real estate of $126,000.

Income Tax Benefit. The income tax benefit for the three months ended June 30, 2010, was $0 compared to an income tax benefit of $(1,308,000) (an effective rate of 37.6%) for the three months ended June 30, 2009. The Company continues to assess its earnings history and trends over the past year and its estimate of future earnings, and has determined that it is more likely than not that the deferred tax asset will not be realized in the near term and has recorded a valuation allowance against the net deferred tax asset as of December 31, 2009 and continuing in 2010.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Comparison of the Six-Month Periods Ended June 30, 2010 and 2009

General. Net loss for the six months ended June 30, 2010, was $(5.2) million or $(1.60) per basic and diluted share compared to a net loss of $(2.1) million or $(.64) per basic and diluted share for the period ended June 30, 2009. The increase in the Company s net loss was primarily due to losses recognized on early extinguishment of debt of $3.7 million, a decrease in net interest income of $1.1 million and a decrease in the income tax benefit of $1.3 million, partially offset by a decrease in the provision for loan losses of $2.3 million and an increase in noninterest income primarily due to gains recognized on the sale of securities of $1.3 million.

Interest Income. Interest income decreased to $4.9 million for the six months ended June 30, 2010 from $7.7 million for the six months ended June 30, 2009. Interest income on loans decreased to $3.5 million due primarily to a decrease in the average loan portfolio balance and a decrease in the average yield earned from 6.30% for the six months ended June 30, 2009 to 5.08% for the six months ended June 30, 2010. Interest on securities decreased to $1.4 million due primarily to a decrease in the average balance of the securities portfolio in 2010.

Interest Expense. Interest expense on deposits decreased to $1.5 million for the six months ended June 30, 2010, from $2.0 million for the six months ended June 30, 2009. Interest expense decreased primarily due to a decrease in the average yield paid on deposits during 2010, partially offset by an increase in the average balance. Interest expense on borrowings decreased to $1.3 million for the six months ended June 30, 2010 from $2.4 million for the six months ended June 30, 2009 due primarily to a decrease in the average balance of borrowings during 2009 due to the early payoff of Federal Home Loan Bank advances and other borrowings in 2010.

Provision for Loan Losses. The provision for the six months ended June 30, 2010, was $2.2 million compared to $4.5 million for the same period in 2009. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management. Management s periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower s ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled $3.5 million or 2.76% of loans outstanding at June 30, 2010, compared to $9.4 million, or 6.54% of loans outstanding at December 31, 2009. The decrease is due to the use of specific reserves for loan charge-offs. Management believes the balance in the allowance for loan losses at June 30, 2010 is adequate.

Noninterest Income. Total noninterest income increased to $1.4 million for the six months ended June 30, 2010, from $8,000 for the six months ended June 30, 2009, primarily due to an increase in gains recognized on the sale of securities of $1.3 million.

Noninterest Expenses. Total noninterest expenses increased to $6.6 million for the six months ended June 30, 2010 from $2.1 million for the six months ended June 30, 2009. The increase was due to losses recognized on early extinguishment of debt of $3.7 million, an increase in professional fees of $564,000 relating to consulting services, and an increase in foreclosed real estate expenses of $273,000 primarily due to a loss on sale of foreclosed real estate of $82,000 and a write-down of foreclosed real estate of $126,000.

Income Tax Benefit. The income tax benefit for the six months ended June 30, 2010, was $0 compared to an income tax benefit of $1.3 million (an effective rate of 37.6%) for the six months ended June 30, 2009. The Company continues to assess its earnings history and trends over the past year and its estimate of future earnings, and has determined that it is more likely than not that the deferred tax asset will not be realized in the near term and has recorded a valuation allowance against the net deferred tax asset as of December 31, 2009 and continuing in 2010.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 4T. Controls and Procedures

a. *Evaluation of Disclosure Controls and Procedures.* We maintain 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 management s evaluation of those controls and procedures performed within the 90 days preceding the filing of this Report, our Principal Executive and Financial Officer concluded that, as of June 30, 2010, the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 was recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission s rules and forms.

b. *Changes in Internal Controls.* We have made no significant changes in our internal controls over financial reporting during the quarter ended June 30, 2010, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

The exhibits contained in the Exhibit Index following the signature page are filed with or incorporated by reference into this report.

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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: August 16, 2010

By: /s/ Richard L. Browdy
Richard L. Browdy
President and Chief Financial Officer
(Principal Executive Officer, Principal Financial Officer

and Principal Accounting Officer)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated by reference from current report on Form 8-K filed with the Securities and Exchange Commission (SEC) on May 11, 2004
3.2	Articles of Amendment to Articles of Incorporation (incorporated by reference from Annual Report on Form 10-K filed with the SEC on March 31, 2009
3.3	Bylaws (incorporated by reference from current report on Form 8-K filed with the Securities and Exchange Commission (SEC) on May 11, 2004
4.1	Form of stock certificate (incorporated by reference from Quarterly Report on Form 10-QSB filed with the SEC on August 12, 2004)
10.1	Amended and Restated Stock Option Plan (incorporated by reference from Annual Report on Form 10-KSB filed with the SEC on March 31, 2006)
10.2	Stipulation to Entry of Consent Order and Consent Order between OptimumBank, Federal Deposit Insurance Corporation and State of Florida Office of Financial Regulation dated April 16, 2010 (incorporated by reference from current report on Form 8-K filed with the SEC on April 26, 2010)
10.3	Agreement between OptimumBank, Albert J. Finch and Richard L. Browdy dated June 14, 2002 (incorporated by reference from Registration Statement on Form 10-SB under the Exchange Act, filed with the Federal Deposit Insurance Corporation on March 28, 2003)
14.1	Code of Ethics for Chief Executive Officer and Senior Financial Officers (incorporated by reference from Annual Report on Form 10-KSB filed with the SEC on March 31, 2008)
31.1	Certification of Principal Executive and Principal Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act
32.1	Certification of Principal Executive and Principal Financial Officer under §906 of the Sarbanes-Oxley Act of 2002