

Filename: optimum091489\_10k.htm  
Type: 10-K  
Comment/Description: FORM 10-K FOR FISCAL  
YEAR ENDED DECEMBER 31,  
2008

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2008

OR

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

Commission File Number 000-1288855

OPTIMUMBANK HOLDINGS, INC.

(Name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of  
incorporation or organization)

2477 East Commercial Blvd., Fort Lauderdale, FL  
(Address of principal executive offices)

55-0865043  
(I.R.S. Employer  
Identification No.)

33308  
(Zip Code)

Issuer's telephone number, including area code:  
(954) 776-2332

Securities registered pursuant to Section 12(b) of the Act:  
Common Stock, par value \$0.01 per share

Securities registered pursuant to Section 12(g) of the Act:  
None

The registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

The registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SK contained in this form, and no disclosure will be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

The registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. YES  NO

The aggregate market value of the Common Stock of the issuer held by non-affiliates of the issuer (2,057,603 shares) on March 23, 2009, was approximately \$8,724,237. The aggregate market value was computed by reference to the last sale of the Common Stock of the issuer at \$4.24 per share on March 23, 2009. For the purposes of this response, directors and executive officers are considered the affiliates of the issuer at that date.

As of March 23, 2009, there were outstanding 3,120,992 shares of the issuer's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 30, 2009 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the issuer's fiscal year end are incorporated by reference into Part III, Items 9 through 12, and 14, of this Annual Report on Form 10-K.

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**PART I**

**Item 1. Business**

**Forward-Looking Statements**

We have made forward-looking statements in this Annual Report about the financial condition, results of operations, and business of our company. These statements are not historical facts and include expressions concerning the future that are subject to risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among other things, the following possibilities:

- general economic conditions, either nationally or regionally, that are less favorable than expected resulting in, among other things, a deterioration in credit quality and an increase in credit risk-related losses and expenses;
- changes in the interest rate environment that reduce margins;
- competitive pressure in the banking industry that increases significantly;
- changes that occur in the regulatory environment; and
- changes that occur in business conditions and the rate of inflation.

When used in this Annual Report, the words “believes,” “estimates,” “plans,” “expects,” “should,” “may,” “might,” “outlook,” and “anticipates,” as well as similar expressions, as they relate to OptimumBank Holdings, Inc., or its management, are intended to identify forward-looking statements.

**General**

OptimumBank Holdings, Inc. was formed in 2004 as a Florida corporation to serve as a one-bank holding company for OptimumBank and acquired all of the shares of OptimumBank in May 2004. Our only business is the ownership and operation of OptimumBank. OptimumBank is a Florida chartered bank which opened in November 2000, and its deposits are insured by the Federal Deposit Insurance Corporation, or FDIC. OptimumBank provides community banking services to individuals and businesses in Broward, Miami-Dade and Palm Beach counties. OptimumBank conducts operations from its Fort Lauderdale headquarters and three branch offices in Fort Lauderdale, Plantation and Deerfield Beach.

OptimumBank Holdings is subject to the supervision and regulation of the Federal Reserve. OptimumBank is subject to the supervision and regulation of the Florida Office of Financial Regulation and the Federal Deposit Insurance Corporation. OptimumBank is a member of the Federal Home Loan Bank of Atlanta.

At December 31, 2008, our company had total assets of \$255.7 million, net loans of \$160.7 million, total deposits of \$114.9 million and stockholders' equity of \$22.8 million. During 2008, our company had net earnings of \$520,000.

**Recent Events**

In December 2008, we received preliminary approval from the U. S. Department of Treasury to sell up to \$4.578 million in preferred stock to Treasury under its Troubled Asset Relief Program (“TARP”) Capital Purchase Program. Prior to closing the transaction, we declined to accept the TARP funds after consideration of all the factors associated with the receipt of TARP funds. We based our decision in part on the fact that we had capital well in excess of that required to be considered well-capitalized under banking regulations without the TARP funds.

**Banking Products**

Our revenues are primarily derived from interest on, and fees received in connection with, real estate, and other loans, and from interest from mortgage-backed securities and short-term investments. The principal sources of funds for our lending activities are deposits, borrowings, repayment of loans, and the repayment, or maturity of investment securities. Our principal expenses are the interest paid on deposits, and operating and general administrative expenses.

As is the case with banking institutions generally, our operations are materially and significantly influenced by general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Board of Governors of the Federal Reserve System and the FDIC. Deposit flows and costs of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. We face strong competition in attracting deposits (our primary source of lendable funds) and originating loans.

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We provide a range of consumer and commercial banking services to individuals and businesses. The basic services we offer include: demand interest-bearing and noninterest-bearing accounts, money market deposit accounts, NOW accounts, time deposits, credit cards, cash management, direct deposits, notary services, money orders, night depository, travelers' checks, cashier's checks, domestic collections, savings bonds, bank drafts, automated teller services, drive-in tellers, and banking by mail. In addition, we make residential and commercial real estate loans and consumer loans. We provide ATM cards, as a part of the Star, Presto and Cirrus networks, thereby permitting customers to utilize the convenience of ATMs worldwide. We do not have trust powers and provide no trust services.

### Strategy

Our continuing goal is to become one of the leading community banking organizations in Broward County. We expect to accomplish our goal through steady, reasonable and controlled growth and a prudent operating strategy.

Our operating and business strategy emphasizes:

1. Local management and local decision making resulting in rapid, personalized customer service, rapid credit decisions and expedited closings;
2. Maintaining our presence in Broward County through a branch network- we currently have three branch banking offices in Broward County;
3. Real estate lending activities by continuing to originate adjustable rate residential and commercial mortgage loans for our customers;
4. Maintaining high credit quality through strict underwriting criteria and our knowledge of the real estate values in our market area;
5. Personalized products and service - we strive to provide innovative financial products, high service levels and to maintain strong customer relationships. We seek customers who prefer to conduct business with a locally owned and managed institution.

### Lending Activities

We offer primarily real estate and to a lesser extent, consumer loans, to individuals and small businesses and other organizations that are located in or conduct a substantial portion of their business in our market area. Our market area consists of the tri-county area of Broward, Miami-Dade and Palm Beach counties. Our net loans at December 31, 2008 were \$160.7 million, or 62.84% of total assets. The interest rates we charge on loans vary with the degree of risk, maturity, and amount of the loan, and are further subject to competitive pressures, money market rates, availability of funds, and government regulations. We have no foreign loans or loans for highly leveraged transactions.

Our loans are concentrated in two major areas: residential and commercial real estate loans. As of December 31, 2008, 99.46% of our loan portfolio consisted of loans secured by mortgages on real estate, of which approximately 36.25% of the total loan portfolio was secured by one-to-four family residential properties. Our real estate loans are located primarily in our tri-county market area.

Our real estate loans are secured by mortgages and consist primarily of loans to individuals and businesses for the purchase or improvement of, or investment in real estate. These real estate loans may be made at fixed or variable interest rates and are normally adjustable rate mortgages which adjust annually after the initial three to five year period. Our fixed rate loans generally are for terms of five years or less, and are repayable in monthly installments based on a maximum 30-year amortization schedule. Our consumer loans range from a term of one to five years and may be made at fixed or variable interest rates. We originate unsecured consumer loans as well as consumer loans secured by mortgages on residential and commercial real estate.

Loan originations are derived primarily from existing customers, direct marketing and independent mortgage brokers that process our loans. We pay fees to these brokers in connection with their services; however, we perform the underwriting and approval of each of the loans we fund.

Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions including interest rates, and risks inherent in dealing with individual borrowers. We attempt to minimize credit losses through various means. On larger credits, we rely on the cash flow and assets of a debtor as the source of repayment as well as the value of the underlying collateral. We also generally limit our real estate loans to 80% of the value of the underlying real estate collateral. We generally charge a prepayment penalty if a loan is repaid within the first two to three years of origination to recover any fees we paid for the origination of the loan.

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**Deposit Activities**

Deposits are the major source of our funds for lending and other investment activities. We consider the majority of our regular savings, demand, NOW, money market deposit accounts and CD's under \$100,000 to be core deposits. These accounts comprised approximately 67.9% of our total deposits at December 31, 2008. Approximately 73.2% of our deposits at December 31, 2008 were certificates of deposit. Generally, we attempt to maintain the rates paid on our deposits at a competitive level. Time deposits of \$100,000 and over made up approximately 32.1% of our total deposits at December 31, 2008. Although these large deposits are not traditionally considered core deposits, the majority of these deposits have served as a stable source of funds in our targeted market. The majority of our deposits are generated from Broward County.

We may use brokered deposits to facilitate the funding of our mortgage lending activities in circumstances when larger than anticipated loan volumes occur and there is not enough time to fund the additional loan demand through traditional deposit solicitation. The time frame from the initial order to the final funding of brokered deposits is generally one to three days. The rates paid on these brokered deposits are typically equal to or slightly less than the high end of the interest rates in OptimumBank's competitive market area. Brokered deposits amounted to 11.9% and 6.0% of our total deposits at December 31, 2008 and 2007, respectively.

**Investments**

We invest a portion of our assets in mortgage-backed securities and federal funds sold. Our investments are managed in relation to loan demand and deposit growth, and are generally used to provide for the investment of excess funds with minimal risk and for liquidity to fund increases in loan demand or to offset fluctuations in deposits.

Our total investment portfolio may be invested in U.S. Treasury and general obligations of its agencies because such securities generally represent a minimal investment risk. Mortgage-backed securities generally have a shorter life than the stated maturity. Federal funds sold is the excess cash we have available over and above daily cash needs. This money is invested on an overnight basis with approved correspondent banks.

We monitor changes in financial markets. In addition to investments for our portfolio, we monitor our daily cash position to ensure that all available funds earn interest at the earliest possible date. A portion of the investment account is designated as secondary reserves and invested in liquid securities that can be readily converted to cash with minimum risk of market loss. These investments usually consist of U.S. Treasury obligations, U.S. government agencies and federal funds. The remainder of the investment account may be placed in investment securities of different type and longer maturity. Daily surplus funds are sold in the federal funds market for one business day. We attempt to stagger the maturities of our securities so as to produce a steady cash flow in the event we need cash.

**Correspondent Banking**

Correspondent banking involves one bank providing services to another bank which cannot provide that service for itself from an economic or practical standpoint. We are required to purchase correspondent services offered by larger banks, including check collections, purchase of federal funds, security safekeeping, investment services, coin and currency supplies, overline and liquidity loan participations, and sales of loans to or participations with correspondent banks.

We have established a correspondent relationship with Independent Bankers Bank of Florida. We pay for such services in cash as opposed to keeping compensating balances. We also sell loan participations to other banks with respect to loans which exceed our lending limit.

**Data Processing**

We outsource most of our data processing services, including an automated general ledger and deposit accounting; however, we service all our loans in-house.

**Internet Banking**

We maintain a website at [www.optimumbank.com](http://www.optimumbank.com) where customers can access account balances, view current account activity and their previous statement, view images of paid checks and transfer funds between accounts. Our website provides information regarding our Visa credit card offering.

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## Competition

We encounter strong competition both in making loans and in attracting deposits. The deregulation of the banking industry and the widespread enactment of state laws which permit multi-bank holding companies as well as an increasing level of interstate banking have created a highly competitive environment for commercial banking. In one or more aspects of our business, we compete with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Most of these competitors, some of which are affiliated with bank holding companies, have substantially greater resources and lending limits, and may offer certain services that we do not currently provide. In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern federally insured banks. Recent federal and state legislation has heightened the competitive environment in which financial institutions must conduct their business, and the potential for competition among financial institutions of all types has increased significantly.

To compete, we rely upon specialized services, responsive handling of customer needs, and personal contacts by our officers, directors, and staff. Large multi-branch banking competitors tend to compete primarily by rate and the number and location of branches while smaller, independent financial institutions tend to compete primarily by rate and personal service.

## Employees

As of December 31, 2008, we had 19 full-time employees, including executive officers. The employees are not represented by a collective bargaining unit. We consider relations with employees to be good.

## Supervision and Regulation

Banks and their holding companies are extensively regulated under both federal and state law. The following is a brief summary of certain statutes, rules, and regulations affecting OptimumBank Holdings and OptimumBank. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and is not intended to be an exhaustive description of the statutes or regulations applicable to the business of our company and our bank. Supervision, regulation, and examination of banks by regulatory agencies are intended primarily for the protection of depositors, rather than shareholders.

### Company Regulation

**General.** As a bank holding company registered under the Bank Holding Company Act of 1956 (the "BHCA"), OptimumBank Holdings is subject to the regulation and supervision of, and inspection by, the Federal Reserve Board ("Federal Reserve"). OptimumBank Holdings also is required to file with the Federal Reserve annual reports and other information regarding its business operations, and those of its subsidiaries. In the past, the BHCA limited the activities of bank holding companies and their subsidiaries to activities which were limited to banking, managing or controlling banks, furnishing services to or performing services for their subsidiaries or engaging in any other activity which the Federal Reserve determined to be so closely related to banking or managing or controlling banks as to be properly incident thereto. Under the Gramm-Leach-Bliley Financial Modernization Act of 1999 which is discussed below, bank holding companies now have the opportunity to seek broadened authority, subject to limitations on investment, to engage in activities that are "financial in nature" if all of their subsidiary depository institutions are well capitalized, well managed, and have at least a satisfactory rating under the Community Reinvestment Act, which is also discussed below.

In this regard, the BHCA prohibits a bank holding company, with certain limited exceptions, from (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company, or (ii) engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or performing services for its subsidiaries, unless such non-banking business is determined by the FRB to be so closely related to banking or managing or controlling banks as to be properly incident thereto. In making such determinations, the FRB is required to weigh the expected benefit to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. Generally, bank holding companies, such as OptimumBank Holdings, are required to obtain prior approval of the Federal Reserve to engage in any new activity not previously approved by the Federal Reserve.

**Change of Holding Company Control.** The BHCA also requires that every bank holding company obtain the prior approval of the Federal Reserve before it may acquire all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of the

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voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, including the parties' performance under the Community Reinvestment Act (discussed below) and various competitive factors. As described in greater detail below, pursuant to the Riegle-Neal Interstate Banking and Branch Efficiency Act of 1994 (the "Interstate Banking and Branching Act"), a bank holding company is permitted to acquire banks in states other than its home state.

The BHCA further prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve Bank has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. In addition, any person or group of persons must obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (5% in the case of an acquirer that is already a bank holding company) or more of the outstanding common stock of a bank holding company, or otherwise obtaining control or a "controlling influence" over the bank holding company.

**Interstate Banking and Branching.** The Interstate Banking and Branching Act provides for nationwide interstate banking and branching. Under the law, interstate acquisitions of banks or bank holding companies in any state by bank holding companies in any other state are permissible subject to certain limitations. Florida also has a law that allows out-of-state bank holding companies (located in states that allow Florida bank holding companies to acquire banks and bank holding companies in that state) to acquire Florida banks and Florida bank holding companies. The law essentially provides for out-of-state entry by acquisition only (and not by interstate branching) and requires the acquired Florida bank to have been in existence for at least three years. Interstate branching and consolidation of existing bank subsidiaries in different states is permissible. A Florida bank also may establish, maintain, and operate one or more branches in a state other than Florida pursuant to an interstate merger transaction in which the Florida bank is the resulting bank.

**Financial Modernization.** The Gramm-Leach-Bliley Act of 1999 (the "GLB Act") sought to achieve significant modernization of the federal bank regulatory framework by allowing the consolidation of banking institutions with other types of financial services firms, subject to various restrictions and requirements. In general, the GLB Act repealed most of the federal statutory barriers which separated commercial banking firms from insurance and securities firms and authorized the consolidation of such firms in a "financial services holding company." We have no current plans to utilize the structural options created by the GLB Act.

**Securities Regulation and Corporate Governance.** OptimumBank Holdings' common stock is registered with the Securities and Exchange Commission (the "SEC") under Section 12(b) of the Securities Exchange Act of 1934, and we are subject to restrictions, reporting requirements and review procedures under federal securities laws and regulations. We are also subject to the rules and reporting requirements of the NASDAQ Global Market, on which our common stock is traded. Like other issuers of publicly traded securities, we must also comply with the corporate governance reforms enacted under the Sarbanes-Oxley Act of 2002 ("The Sarbanes-Oxley Act") and the rules of the SEC and NASDAQ Stock Market adopted pursuant to the Sarbanes Oxley Act. Among other things, these reforms, effective as of various dates, require certification of financial statements by the chief executive officer and chief financial officer, prohibit the provision of specified services by independent auditors, require pre-approval of independent auditor services, define director independence and require certain committees, and a majority of a subject company's board of directors, to consist of independent directors, establish additional disclosure requirements in reports filed with the SEC, require expedited filing of reports, require management evaluation and auditor attestation of internal controls, prohibit loans by the issuer (but not by certain depository institutions) to directors and officers, set record-keeping requirements, mandate complaint procedures for the reporting of accounting and audit concerns by employees, and establish penalties for non-compliance.

## Bank Regulation

**General.** OptimumBank is chartered under the laws of the State of Florida, and its deposits are insured by the FDIC to the extent provided by law. OptimumBank is subject to comprehensive regulation, examination and supervision by the FDIC and the Florida Department of Financial Services (the "Florida Department") and to other laws and regulations applicable to banks. Such regulations include limitations on loans to a single borrower and to its directors, officers and employees; limitations on the types of activities a state bank can conduct, restrictions on the opening and closing of branch offices; the maintenance of required capital ratios; the granting of credit under equal and fair conditions; and the disclosure of the costs and terms of such credit. OptimumBank is examined periodically by the FDIC and the Florida Department, to whom it submits periodic reports regarding its financial condition and other matters. The FDIC and the Florida Department have a broad range of powers to enforce regulations under their jurisdiction, and to take discretionary actions determined to be for the protection and safety and soundness

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of banks, including the institution of cease and desist orders and the removal of directors and officers. The FDIC and the Florida Department also have the authority to approve or disapprove mergers, consolidations, and similar corporate actions.

**Dividends.** OptimumBank Holdings' ability to pay dividends is substantially dependent on the ability of OptimumBank to pay dividends to OptimumBank Holdings. The FDIC and the Florida Department have the general authority to limit the dividend payment by banks if such payment may be deemed to constitute an unsafe and unsound practice. For information on the restrictions on the right of OptimumBank to pay dividends to OptimumBank Holdings, see Part II — Item 5 "Market for the Registrant's Common Equity and Related Stockholder Matters."

**Loans to One Borrower.** Florida law generally allows a state bank such as OptimumBank to extend credit to any one borrower (and certain related entities of such borrower) in an amount up to 25% of its capital accounts, provided that the unsecured portion may not exceed 15% of the capital accounts of the bank. Based upon OptimumBank's capital, the maximum loan OptimumBank is currently permitted to make is approximately \$6.9 million, provided the unsecured portion does not exceed approximately \$4.1 million.

**Transactions with Affiliates.** Under federal law, federally insured banks are subject, with certain exceptions, to certain restrictions on any extension of credit to their parent holding companies or other affiliates, on investment in the stock or other securities of affiliates, and on the taking of such stock or securities as collateral from any borrower. In addition, banks are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

**Change of Bank Control.** Florida law restricts the amount of voting stock of a bank that a person may acquire without the prior approval of banking regulators. The overall effect of such laws is to make it more difficult to acquire a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of financial institutions are less likely to benefit from the rapid increases in stock prices that often result from tender offers or similar efforts to acquire control of other companies.

Under Florida law, no person or group of persons may, directly or indirectly or acting by or through one or more persons, purchase or acquire a controlling interest in any bank which would result in the change in control of that bank unless the Florida Department first shall have approved such proposed acquisition. A person or group will be deemed to have acquired "control" of a bank (i) if the person or group, directly or indirectly or acting by or through one, or more other persons, owns, controls, or has power to vote 25% or more of any class of voting securities of the bank, or controls in any manner the election of a majority of the directors of the bank, or (ii) if the Florida Department determines that such person exercises a controlling influence over the management or policies of the bank. In any case where a proposed purchase of voting securities would give rise to a presumption of control, the person or group who proposes to purchase the securities must first file written notice of the proposal to the Florida Department for its review and approval. Subsections 658.27(2)(c) and 658.28(3), Florida Statutes, refer to a potential change of control of a financial institution at a 10% or more threshold and rebuttable presumption of control. Accordingly, the name of any subscriber acquiring more than 10% of the voting securities of OptimumBank must be submitted to the Florida Department for prior approval.

**USA Patriot Act.** The USA Patriot Act was enacted after September 11, 2001 to provide the federal government with powers to prevent, detect, and prosecute terrorism and international money laundering, and has resulted in promulgation of several regulations that have a direct impact on banks. There are a number of programs that financial institutions must have in place such as: (i) Bank Secrecy Act/Anti-Money Laundering programs to manage risk; (ii) Customer Identification Programs to determine the true identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorist or terrorist organizations; and (iii) monitoring for the timely detection and reporting of suspicious activity and reportable transactions. Over the past few years, enforcement, and compliance monitoring, of these anti-money laundering laws has dramatically increased. As a result, we have increased the attention and resources we dedicate to compliance with these laws.

**Other Consumer Laws.** State usury laws and federal laws concerning interest rates limit the amount of interest and various other charges collected or contracted by a bank. OptimumBank's loans are also subject to federal laws applicable to consumer credit transactions, such as the:

- Federal Truth-In-Lending Act governing disclosures of credit terms to consumer borrowers;
- Community Reinvestment Act requiring financial institutions to meet their obligations to provide for the total credit needs of the communities they serve, including investing their assets in loans to low and moderate-income borrowers;
- Home Mortgage Disclosure Act requiring financial institutions to provide information to enable public officials to determine whether a financial institution is fulfilling its obligations to meet the housing needs of

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- the community it serves; Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed or other prohibitive factors in extending credit;
- Real Estate Settlement Procedures Act which requires lenders to disclose certain information regarding the nature and cost of real estate settlements, and prohibits certain lending practices, as well as limits escrow account amounts in real estate transactions;
- Fair Debt Collection Act governing the manner in which consumer debts may be collected by collection agencies;
- Fair and Accurate Credit Transactions Act which establishes additional rights for consumers to obtain and correct credit reports, addresses identity theft, and establishes additional requirements for consumer reporting agencies and financial institutions that provide adverse credit information to a consumer reporting agency; and
- The rules and regulations of various federal agencies charged with the responsibility of implementing such federal laws.

OptimumBank's deposit and loan operations are also subject to the:

- The Gramm-Leach-Bliley Act of 1999 privacy provisions, which require us to maintain privacy policies intended to safeguard consumer financial information, to disclose these policies to our customers, and allow customers to "opt-out" of having their financial service providers disclose their confidential financial information to non-affiliated third parties, subject to certain exceptions;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act and Regulation E, which govern automatic deposits to, and withdrawals from, deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

### Capital Adequacy Requirements

The Federal Reserve Board and bank regulatory agencies require bank holding companies and banks to maintain capital at adequate levels based on a percentage of assets and off balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital consists of common and qualifying preferred shareholders' equity, excluding the unrealized gain (loss) on available-for-sale securities, minus certain intangible assets. Tier 2 capital consists of the general allowance for credit losses except for certain limitations. An institution's qualifying capital base for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital. Banks are also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The minimum requirement for the leverage ratio is 3%, but all but the highest rated institutions are required to maintain ratios 100 to 200 basis points above the minimum. At December 31, 2008, the Bank met all capital requirements to which they were subject.

The FDIC Improvement Act of 1991 ("FDICIA") contains "prompt corrective action" provisions pursuant to which banks are to be classified into one of five categories based upon capital adequacy, ranging from "well capitalized" to "critically undercapitalized" and which require (subject to certain exceptions) the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes "significantly undercapitalized" or "critically undercapitalized." Under regulations implementing the "prompt corrective action" provisions of FDICIA, the FDIC possesses broad powers to take prompt corrective action as deemed appropriate for a bank, based on the bank's capital levels. The extent of these powers depends upon whether the bank in question is considered "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Generally, as a bank is deemed to be less well-capitalized, the scope and severity of the FDIC's powers increase, ultimately permitting the FDIC to appoint a receiver for the bank. Business activities may also be influenced by a bank's capital classification. For instance, only a "well-capitalized" bank may accept brokered deposits without prior regulatory approval, and can engage in various expansion activities with prior notice, rather than prior regulatory approval. Failure to meet these capital requirements could subject the bank to the prompt corrective action provisions of the FDIC, which may include filing with the FDIC a plan describing the means and a schedule for achieving the minimum capital requirements. In addition, a bank would not be able to receive regulatory approval of any application that required consideration of capital adequacy, such as a branch or merger application, unless it could demonstrate a reasonable plan to meet the capital requirement within an acceptable period of time. As of December 31, 2008, OptimumBank met the capital requirements of a "well capitalized" institution.

For additional information regarding OptimumBank's capital ratios and requirements, see "Management's Discussion and Analysis — Regulatory Capital Adequacy."

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**Community Redevelopment Act**

Bank holding companies and their subsidiary banks are subject to the provisions of the Community Reinvestment Act of 1977 (“CRA”) and the regulations promulgated thereunder by the appropriate bank regulatory agency. Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with its examination of a bank, to assess such bank’s record in meeting the credit needs of the community served by that bank, including low-and moderate-income neighborhoods. The regulatory agency’s assessment of the bank’s record is made available to the public. Further, such assessment is required of any bank which has applied to charter a bank, obtain deposit insurance coverage for a newly chartered institution, establish a new branch office that will accept deposits, relocate an office, or merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the record of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application.

**Effect of Governmental Monetary Policies**

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve monetary policies have had, and will likely continue to have, an important impact on the operating results of financial institutions through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve have major effects upon the levels of loans, investments and deposits through its open market operations in United States Government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirement against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

**Statistical Profile and Other Financial Data**

Reference is hereby made to the statistical and financial data contained in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for statistical and financial data providing a review of our business activities.

**Item 2. Properties**

The following table sets forth information with respect to our main office and branch offices as of December 31, 2008.

<u>Location</u>	<u>Year Facility Opened</u>	<u>Facility Status</u>
<b>Executive Office</b>		
2477 East Commercial Boulevard Fort Lauderdale, Florida 33308	2004	Owned
<b>Branch Offices</b>		
10197 Cleary Boulevard Plantation, Florida 33324	2000	Owned
3524 North Ocean Boulevard Fort Lauderdale, Florida 33308	2003	Leased (1)
2215 West Hillsboro Boulevard Deerfield Beach, Florida 22442	2004	Leased (2)

- (1) On February 1, 2007, OptimumBank entered into a sale/leaseback transaction for this facility. No gain or loss was recognized on this transaction. The lease is for a seven-year term. The monthly lease payment at December 31, 2008 was \$4,444. The tenant is responsible for maintenance and real estate taxes.
- (2) Lease is for a ten-year term, with two five-year options to renew, for 2,500 square feet. The monthly lease payment at December 31, 2008 was \$6,449.

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**Item 3. Legal Proceedings**

From time-to-time, we are involved in litigation arising in the ordinary course of our business. As of the date of the filing of this Form 10-K, we are of the opinion that the ultimate aggregate liability represented thereby, if any, will not have a material adverse effect on our consolidated financial condition or results of operations.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of our security holders during the fourth quarter of the year ended December 31, 2008.

**PART II**

**Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters**

Our common stock currently trades on the NASDAQ Global Market, under the symbol "OPHC." The table below presents the high and low sales prices for the periods indicated.

<u>Year</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
2007	First	\$ 13.00	\$ 8.12
	Second	\$ 10.50	\$ 8.50
	Third	\$ 10.16	\$ 6.39
	Fourth	\$ 9.00	\$ 6.51
2008	First	\$ 9.71	\$ 5.16
	Second	\$ 9.45	\$ 6.75
	Third	\$ 8.01	\$ 3.84
	Fourth	\$ 6.00	\$ 3.08

We had approximately 208 holders registered or in street name as of December 31, 2008.

We have not paid any cash dividends in the past. We intend that, for the foreseeable future, we will retain earnings to finance continued growth rather than pay cash dividends on our common stock.

As a state chartered bank, OptimumBank is subject to dividend restrictions set by Florida law and the FDIC. Except with the prior approval of the Florida Department, all dividends of any Florida bank must be paid out of retained net profits from the current period and the previous two years, after deducting expenses, including losses and bad debts. In addition, a state-chartered bank in Florida is required to transfer at least 20% of its net income to surplus until its surplus equals the amount of paid-in capital. Under the Federal Deposit Insurance Act, an FDIC-insured institution may not pay any dividend if payment would cause it to become undercapitalized or while it is undercapitalized.

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**Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**SELECTED FINANCIAL DATA**

**At December 31, or for the Year Then Ended  
(Dollars in thousands, except per share figures)**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>At Year End:</b>					
Cash and cash equivalents	\$ 3,220	701	1,604	1,154	3,223
Securities held to maturity	82,208	58,471	33,399	25,618	24,134
Security available for sale	244	244	241	243	247
Loans, net	160,699	173,323	181,878	170,226	128,810
Loans held for sale	-	-	-	-	509
All other assets	<u>9,369</u>	<u>8,808</u>	<u>8,581</u>	<u>8,803</u>	<u>7,635</u>
Total assets	<u>\$ 255,740</u>	<u>241,547</u>	<u>225,703</u>	<u>206,044</u>	<u>164,558</u>
Deposit accounts	114,925	125,034	129,502	114,064	97,994
Federal Home Loan Bank advances	68,700	56,850	56,550	52,950	37,650
Other borrowings	41,800	28,900	10,950	12,950	5,000
Junior subordinated debenture	5,155	5,155	5,155	5,155	5,155
All other liabilities	2,395	3,361	3,123	2,515	2,036
Stockholders' equity	<u>22,765</u>	<u>22,247</u>	<u>20,423</u>	<u>18,410</u>	<u>16,723</u>
Total liabilities and stockholders' equity	<u>\$ 255,740</u>	<u>241,547</u>	<u>225,703</u>	<u>206,044</u>	<u>164,558</u>
<b>For the Year:</b>					
Total interest income	15,570	16,137	14,191	11,334	8,815
Total interest expense	<u>9,211</u>	<u>9,700</u>	<u>8,063</u>	<u>5,841</u>	<u>4,032</u>
Net interest income	6,359	6,437	6,128	5,493	4,783
Provision for loan losses	<u>1,374</u>	<u>476</u>	<u>265</u>	<u>149</u>	<u>136</u>
Net interest income after provision for loan losses	4,985	5,961	5,863	5,344	4,647
Noninterest income	393	533	628	635	690
Noninterest expenses	<u>4,545</u>	<u>3,749</u>	<u>3,574</u>	<u>3,396</u>	<u>2,801</u>
Earnings before income taxes	833	2,745	2,917	2,583	2,536
Income taxes	<u>313</u>	<u>1,003</u>	<u>1,083</u>	<u>982</u>	<u>966</u>
Net earnings	<u>\$ 520</u>	<u>1,742</u>	<u>1,834</u>	<u>1,601</u>	<u>1,570</u>
Net earnings per share, basic (1)	<u>\$ .17</u>	<u>.56</u>	<u>.59</u>	<u>.52</u>	<u>.51</u>
Net earnings per share, diluted (1)	<u>\$ .16</u>	<u>.55</u>	<u>.57</u>	<u>.50</u>	<u>.50</u>
Weighted-average number of shares outstanding, basic (1)	<u>3,120,992</u>	<u>3,112,227</u>	<u>3,101,357</u>	<u>3,077,949</u>	<u>3,051,874</u>
Weighted-average number of shares outstanding, diluted (1)	<u>3,164,219</u>	<u>3,184,744</u>	<u>3,233,617</u>	<u>3,197,124</u>	<u>3,147,249</u>
<b>Ratios and Other Data:</b>					
Return on average assets	.21%	.73%	.85%	.86%	1.06%
Return on average equity	2.26%	8.16%	9.37%	9.09%	10.05%
Average equity to average assets	9.15%	8.96%	9.12%	9.42%	10.53%
Net interest margin during the year	2.61%	2.78%	2.96%	3.08%	3.35%
Interest-rate differential during the year	2.26%	2.34%	2.63%	2.84%	3.05%
Net yield on average interest-earning assets	6.38%	6.96%	6.85%	6.36%	6.18%
Noninterest expenses to average assets	1.81%	1.57%	1.67%	1.82%	1.89%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.09	1.10	1.08	1.08	1.11
Nonperforming loans and foreclosed assets as a percentage of total assets at end of year	2.03%	0.13%	-	-	2.54%
Allowance for loan losses as a percentage of total loans at end of year	1.18%	.40%	.54%	.46%	.49%
Total number of banking offices	3	3	3	3	3
Total shares outstanding at end of year (1)	3,120,992	3,121,132	3,109,359	3,083,653	3,067,824
Book value per share at end of year (1)	\$ 7.29	7.13	6.57	5.97	5.45

(1) All share and per share amounts have been adjusted to reflect the 5% stock dividends declared in May 2008, 2007 and 2006.

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**General**

OptimumBank Holdings, Inc. is a one-bank holding company formed in 2004. Our only business is the ownership and operation of OptimumBank. OptimumBank is a Florida chartered bank which opened in November 2000, and its deposits are insured by the FDIC. OptimumBank provides community banking services to individuals and businesses in Broward, Miami-Dade and Palm Beach counties. OptimumBank conducts operations from its Fort Lauderdale headquarters and three branch offices in Fort Lauderdale, Plantation and Deerfield Beach.

At December 31, 2008, our company had total assets of \$255.7 million, net loans of \$160.7 million, total deposits of \$114.9 million and stockholders' equity of \$22.8 million. During 2008, our company had net earnings of \$520,000.

**Critical Accounting Policies**

Our financial condition and results of operations are sensitive to accounting measurements and estimates of matters that are inherently uncertain. When applying accounting policies in areas that are subjective in nature, we must use our best judgment to arrive at the carrying value of certain assets. One of the most critical accounting policies applied by us is related to the valuation of our loan portfolio.

A variety of estimates impact the carrying value of our loan portfolio including the calculation of the allowance for loan losses, valuation of underlying collateral, the timing of loan charge-offs and the amount and amortization of loan fees and deferred origination costs.

The allowance for loan losses is one of our most difficult and subjective judgments. The allowance is established and maintained at a level we believe is adequate to cover losses resulting from the inability of borrowers to make required payments on loans. Estimates for loan losses are determined by analyzing risks associated with specific loans and the loan portfolio, current trends in delinquencies and charge-offs, the views of our regulators, changes in the size and composition of the loan portfolio and peer comparisons. The analysis also requires consideration of the economic climate and direction, changes in the interest rate environment which may impact a borrower's ability to pay, legislation impacting the banking industry and economic conditions specific to the tri-county region we serve in Southeast Florida. Because the calculation of the allowance for loan losses relies on our estimates and judgments relating to inherently uncertain events, results may differ from management's estimates.

The allowance for loan losses is also discussed as part of "Results of Operations" and in Note 3 of Notes to the Consolidated Financial Statements. Our significant accounting policies are discussed in Note 1 of Notes to the Consolidated Financial Statements.

**Regulation and Legislation**

As a state-chartered commercial bank, the Bank is subject to extensive regulation by the Florida Department of Financial Services and the FDIC. We file reports with the Florida Department and the FDIC concerning our activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other financial institutions. Periodic examinations are performed by the Florida Department and the FDIC to monitor our compliance with the various regulatory requirements. The Company is also subject to regulation and examination by the Federal Reserve Board of Governors.

**Loan Portfolio, Allowance for Loan Losses, Asset Quality and Credit Risk**

Our primary business is making real estate loans. This activity may subject us to potential loan losses, the magnitude of which depends on a variety of economic factors affecting borrowers which are beyond our control. We have instituted detailed loan policies and procedures which include underwriting guidelines to minimize loss exposure. We also have credit review procedures to protect us from avoidable credit losses. We believe our procedures are adequate to insure asset quality and protect against credit risk, but some losses beyond our control will inevitably occur.

We grant the majority of our loans to borrowers throughout Broward and portions of Palm Beach and Miami-Dade Counties, Florida. Although we have a diversified loan portfolio, a significant portion of our borrowers' ability to honor their contracts is dependent on the economy in Broward, Palm Beach and Miami-Dade County, Florida, and to a lesser extent, other regions in Florida.

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The following table sets forth the composition of our loan portfolio:

	At December 31,					
	2008		2007		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(dollars in thousands)					
Residential real estate	\$ 58,693	36.25%	\$ 65,908	38.08%	\$ 70,868	38.99%
Multi-family real estate	9,588	5.92	10,275	5.94	10,769	5.93
Commercial real estate	73,541	45.42	75,777	43.78	68,852	37.89
Land and construction	19,223	11.87	21,093	12.19	31,022	17.07
Commercial	-	-	-	-	-	-
Consumer	878	.54	15	.01	227	.12
<b>Total loans</b>	<b>161,923</b>	<b>100.00%</b>	<b>173,068</b>	<b>100.00%</b>	<b>181,738</b>	<b>100.00%</b>
Add (deduct):						
Allowance for loan losses	(1,906)		(692)		(974)	
Net deferred loan costs discounts	682		947		1,114	
<b>Loans, net</b>	<b>\$ 160,699</b>		<b>\$ 173,323</b>		<b>\$ 181,878</b>	

	At December 31,			
	2005		2004	
	Amount	% of Total	Amount	% of Total
	(dollars in thousands)			
Residential real estate	\$ 65,016	38.29%	\$ 61,070	47.38%
Multi-family real estate	15,135	8.91	10,853	8.42
Commercial real estate	54,286	31.97	38,064	29.53
Land and construction	34,760	20.47	18,169	14.09
Commercial	570	.33	581	.45
Consumer	43	.03	162	.13
<b>Total loans</b>	<b>169,810</b>	<b>100.00%</b>	<b>128,899</b>	<b>100.00%</b>
Add (deduct):				
Allowance for loan losses	(777)		(628)	
Net deferred loan costs discounts	1,193		539	
<b>Loans, net</b>	<b>\$ 170,226</b>		<b>\$ 128,810</b>	

The following table sets forth the activity in the allowance for loan losses (in thousands):

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Beginning balance	\$ 692	\$ 974	\$ 777	\$ 628	\$ 492
Provision for loan losses	1,374	476	265	149	136
Loans charged off:					
Residential real estate	(112)	(758)	(68)	-	-
Commercial real estate	(48)	-	-	-	-
Total Loans Charged Off	(160)	(758)	(68)	-	-
<b>Ending balance</b>	<b>\$ 1,906</b>	<b>\$ 692</b>	<b>\$ 974</b>	<b>\$ 777</b>	<b>\$ 628</b>

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The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. In 2008, the charge-offs related to single-family residential loans and a commercial real estate loan. In 2007, the charge-offs related to a single-family residential loan. The allowance for loan losses represented 1.18% and .40% of the total loans outstanding at December 31, 2008 and 2007, respectively.

We evaluate the allowance for loan losses on a regular basis. It is based on our periodic review of the collectibility of the existing loan portfolio in light of historical loss experience, the nature and volume of the loan portfolio, adverse situations, including economic conditions, that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans, we establish an allowance when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

We consider a loan impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors we consider in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

We measure impairment on a loan by loan basis for all our loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. For loans that are collateral dependent, our estimates of the fair value of collateral are based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers, and the knowledge and experience of our management related to property values in our market areas. Our management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value.

In the table below, we have shown the two components, as discussed above, of our allowance for loan losses at December 31, 2008 and 2007 (dollars in thousands):

	<b>At December 31,</b>	
	<b>2008</b>	<b>2007</b>
Impaired loans	\$ 10,938	\$ -
Specific Allowance on Impaired Loans	1,120	-
Specific allowance as percentage of impaired loans	10.24%	-%
Total loans other than impaired loans	150,985	173,068
General Allowance	786	692
General allowance as percentage of non impaired loans	.52%	.40%
Total loans	161,923	173,068
Total allowance for loan losses	1,906	692
Allowance for loan losses as percentage of total loans	1.18%	.40%

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The following table sets forth our allowance for loan losses by loan type (dollars in thousands):

	At December 31,					
	2008		2007		2006	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Residential real estate	\$ 928	36.25%	\$ 187	38.08%	\$ 400	38.99%
Multi-family real estate	62	5.92	59	5.94	54	5.93
Commercial real estate	463	45.42	379	43.78	406	37.89
Land and construction	444	11.87	67	12.19	114	17.07
Commercial	-	-	-	-	-	-
Consumer	9	.54	-	.01	-	.12
<b>Total allowance for loan losses</b>	<b>\$ 1,906</b>	<b>100.00%</b>	<b>\$ 692</b>	<b>100.00%</b>	<b>\$ 974</b>	<b>100.00%</b>
Allowance for loan losses as a percentage of total loans outstanding	<u>1.18%</u>		<u>0.40%</u>		<u>0.54%</u>	

	At December 31,			
	2005		2004	
	Amount	% of Total Loans	Amount	% of Total Loans
Residential real estate	\$ 206	38.29%	\$ 218	47.38%
Multi-family real estate	81	8.91	52	8.42
Commercial real estate	347	31.97	240	29.53
Land and construction	140	20.47	115	14.09
Commercial	3	.33	3	.45
Consumer	-	.03	-	.13
<b>Total allowance for loan losses</b>	<b>\$ 777</b>	<b>100.00%</b>	<b>\$ 628</b>	<b>100.00%</b>
Allowance for loan losses as a percentage of total loans outstanding	<u>0.46%</u>		<u>0.49%</u>	

Information about impaired loans, all of which are collateral dependent, is as follows (in thousands):

	At December 31,	
	2008	2007
Loans identified as impaired:		
Gross loans with no related allowance for losses	\$ 4,001	\$ -
Gross loans with related allowance for loan losses recorded	6,937	-
Less: Allowance on these loans	(1,120)	-
<b>Net investment in impaired loans</b>	<b>\$ 9,818</b>	<b>\$ -</b>

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There were no impaired loans during 2006. During 2008 and 2007, the average net investment in impaired loans and interest income recognized and received on impaired loans is as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Average investment in impaired loans	\$ 3,240	\$ 1,581
Interest income recognized on impaired loans	\$ -	\$ 39
Interest income received on a cash basis on impaired loans	\$ -	\$ 39

The increase in impaired loans in 2008 is reflective of the current real estate market in Florida and the economy in general. The net investment in impaired loans at December 31, 2008 consists of 10 land loans with a carrying value of \$7.41 million, net of related allowance for loan losses of \$420,000, and one residential loan in the amount of \$2.408 million, net of related allowance for loan losses of \$700,000, secured by a single-family residence in Naples, Florida. The largest impaired land loans consist of two loans in the aggregate amount of \$4.299 million, net of related allowance for loan losses of \$5,033, secured by undeveloped waterfront land in North Fort Myers, Florida, and a \$1.869 million loan, net of related allowance for loan losses of \$200,000, secured by waterfront lots in Bonita Springs, Florida.

At December 31, 2006 and 2005, the Company had no nonaccrual loans or loans over 90 days past due still accruing interest. Nonaccrual and past due loans were as follows as of December 31, 2008, 2007 and 2004 (in thousands):

	<u>At December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2004</u>
Nonaccrual loans	\$ 5,086	\$ 245	\$ 3,268
Past ninety days or more, but still accruing interest	\$ -	\$ -	\$ -

All non-accrual loans at December 31, 2008 have been identified by management as impaired loans at that date.

At December 31, 2008 and 2007, the Company had \$95,000 and \$79,000, respectively, of foreclosed real estate assets.

**Liquidity and Capital Resources**

Liquidity represents an institution's ability to meet current and future obligations through liquidation or maturity of existing assets or the acquisition of additional liabilities. Our ability to respond to the needs of depositors and borrowers and to benefit from investment opportunities is facilitated through liquidity management.

Our primary sources of cash during the year ended December 31, 2008 were from other borrowings of \$12.9 million, principal repayments of securities held to maturity of \$11.4 million, net repayments of loans of \$10.0 million and proceeds from Federal Home Loan Bank advances of \$22.5 million. Cash was used primarily to purchase securities held to maturity totaling \$35.6 million, repayment of Federal Home Loan Bank advances of \$10.7 million and to fund deposit withdrawals of \$10.1 million. We adjust rates on our deposits to attract or retain deposits as needed. In addition to obtaining funds from depositors in our market area, from time to time we utilize brokers to obtain deposits outside our market area.

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. We are a member of the Federal Home Loan Bank of Atlanta, which allows us to borrow funds under a pre-arranged line of credit equal to 40% of the Bank's total assets. As of December 31, 2008, we had \$68.7 million in borrowings outstanding from the Federal Home Loan Bank of Atlanta to facilitate loan fundings and manage our asset and liability structure. In addition, we have an unsecured "federal funds" line of credit with Independent Bankers Bank of Florida totaling \$6 million, none of which was outstanding at December 31, 2008. This credit line is normally used to meet short-term funding demands. At December 31, 2008, we sold securities under an agreement to repurchase totaling \$41.8 million. These borrowings are collateralized by securities held to maturity with a carrying value of \$55.6 million at December 31, 2008. We believe our liquidity sources are adequate to meet our operating needs.

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**Securities**

Our securities portfolio is comprised primarily of mortgage-backed securities and a mutual fund. The securities portfolio is categorized as either “held to maturity” or “available for sale.” Securities held to maturity represent those securities which we have the positive intent and ability to hold to maturity. These securities are carried at amortized cost. Securities available for sale represent those investments which may be sold for various reasons including changes in interest rates and liquidity considerations. These securities are reported at fair market value and unrealized gains and losses are excluded from earnings and reported in other comprehensive income.

The following table sets forth the amortized cost and fair value of our securities portfolio (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
<b>At December 31, 2008:</b>		
Securities held to maturity:		
Mortgage-backed securities	\$ 82,108	\$ 78,656
Foreign bond	100	100
	<u>\$ 82,208</u>	<u>\$ 78,756</u>
Security available for sale-Mutual fund	<u>\$ 250</u>	<u>\$ 244</u>
<b>At December 31, 2007:</b>		
Securities held to maturity:		
Mortgage-backed securities	\$ 58,371	\$ 58,017
Foreign bond	100	100
	<u>\$ 58,471</u>	<u>\$ 58,117</u>
Security available for sale-Mutual fund	<u>\$ 250</u>	<u>\$ 244</u>
<b>At December 31, 2006:</b>		
Securities held to maturity:		
Mortgage-backed securities	\$ 33,299	\$ 33,050
Foreign bond	100	100
	<u>\$ 33,399</u>	<u>\$ 33,150</u>
Security available for sale-Mutual fund	<u>\$ 250</u>	<u>\$ 241</u>

A decline in the market value of any security below cost that is deemed to be other-than-temporary results in a reduction of carrying value to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, we consider (1) the length of time and the extent to which fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) whether we have the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Because the decline in fair value and the unrealized losses on the investment securities at December 31, 2008, are attributable to market conditions and not credit quality, and because we have the ability and intent to hold these investments until a market price recovery or maturity, we do not consider these investments other-than-temporarily impaired.

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The following table sets forth, by maturity distribution, certain information pertaining to the securities portfolio (dollars in thousands):

	<u>Within One Year</u>	<u>After One But Within Five Years</u>	<u>After Five Years Through Ten Years</u>	<u>After Ten Years</u>	<u>Total</u>	<u>Yield</u>
<b>At December 31, 2008:</b>						
Mortgage-backed securities	\$ -	\$ -	\$ 1,604	\$ 80,504	\$ 82,108	5.41%
Foreign bond	\$ -	\$ -	\$ 100	\$ -	\$ 100	5.95%
<b>At December 31, 2007:</b>						
Mortgage-backed securities	\$ -	\$ -	\$ -	\$ 58,371	\$ 58,371	5.59%
Foreign bond	\$ -	\$ -	\$ 100	\$ -	\$ 100	5.95%
<b>At December 31, 2006:</b>						
Mortgage-backed securities	\$ -	\$ -	\$ -	\$ 33,299	\$ 33,299	5.01%
Foreign bond	\$ -	\$ -	\$ 100	\$ -	\$ 100	5.95%

**Regulatory Capital Adequacy**

The Bank is subject to various regulatory capital requirements administered by the Federal and state banking agencies. As of December 31, 2008, the most recent notification from the regulatory authorities categorized our Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percentages as set forth in the following tables. There are no conditions or events since that notification that management believes have changed our category.

The following table sets forth for the Bank the amount and the percentage of our actual regulatory capital, regulatory capital for capital adequacy purposes, and the minimum regulatory capital to be well capitalized under the prompt corrective action provisions of the Federal regulations (dollars in thousands).

**REGULATORY CAPITAL REQUIREMENTS**

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>As of December 31, 2008:</b>						
Total Capital to Risk-Weighted Assets	\$ 29,357	18.91%	\$ 12,419	8.00%	\$ 15,524	10.00%
Tier I Capital to Risk-Weighted Assets	27,451	17.68	6,210	4.00	9,314	6.00
Tier I Capital to Total Assets	27,451	10.71	10,254	4.00	12,818	5.00
<b>As of December 31, 2007:</b>						
Total Capital to Risk-Weighted Assets	27,966	17.95	12,465	8.00	15,581	10.00
Tier I Capital to Risk-Weighted Assets	27,274	17.50	6,232	4.00	9,349	6.00
Tier I Capital to Total Assets	27,274	11.15	9,787	4.00	12,234	5.00

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	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
<i>As of December 31, 2006:</i>						
Total Capital to Risk-Weighted Assets	\$ 26,334	16.72%	\$ 12,599	8.00%	\$ 15,749	10.00%
Tier I Capital to Risk-Weighted Assets	25,360	16.10	6,299	4.00	9,449	6.00
Tier I Capital to Total Assets	25,360	11.24	9,026	4.00	11,282	5.00

**Market Risk**

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest-rate risk inherent in our lending and deposit-taking activities. We do not engage in securities trading or hedging activities and do not invest in interest-rate derivatives or enter into interest rate swaps.

We may utilize financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance-sheet transactions are aggregated, and the resulting net positions are identified. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, can be found in Note 8 of Notes to Consolidated Financial Statements.

Our primary objective in managing interest-rate risk is to minimize the potential adverse impact of changes in interest rates on our net interest income and capital, while adjusting our asset-liability structure to obtain the maximum yield-cost spread on that structure. We actively monitor and manage our interest-rate risk exposure by managing our asset and liability structure. However, a sudden and substantial increase in interest rates may adversely impact our earnings, to the extent that the interest-earning assets and interest-bearing liabilities do not change or reprice at the same speed, to the same extent, or on the same basis.

We use modeling techniques to simulate changes in net interest income under various rate scenarios. Important elements of these techniques include the mix of floating versus fixed-rate assets and liabilities, and the scheduled, as well as expected, repricing and maturing volumes and rates of the existing balance sheet.

**Asset Liability Management**

As part of our asset and liability management, we have emphasized establishing and implementing internal asset-liability decision processes, as well as control procedures to aid in managing our earnings. Management believes that these processes and procedures provide us with better capital planning, asset mix and volume controls, loan-pricing guidelines, and deposit interest-rate guidelines, which should result in tighter controls and less exposure to interest-rate risk.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest-rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. The gap ratio is computed as the amount of rate sensitive assets less the amount of rate sensitive liabilities divided by total assets. A gap is considered positive when the amount of interest-rate sensitive assets exceeds interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would adversely affect net interest income, while a positive gap would result in an increase in net interest income. During a period of falling interest rates, a negative gap would result in an increase in net interest income, while a positive gap would adversely affect net interest income.

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In order to minimize the potential for adverse effects of material and prolonged increases in interest rates on the results of operations, our management continues to monitor our assets and liabilities to better match the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. Our policies emphasize the origination of adjustable-rate loans, building a stable core deposit base and, to the extent possible, matching deposit maturities with loan repricing timeframes or maturities.

The following table sets forth certain information relating to our interest-earning assets and interest-bearing liabilities at December 31, 2008, that are estimated to mature or are scheduled to reprice within the period shown (dollars in thousands):

**GAP MATURITY / REPRICING SCHEDULE**

	<b>One Year or Less</b>	<b>More than One Year and Less than Five Years</b>	<b>More than Five Years and Less than Fifteen Years</b>	<b>Over Fifteen Years</b>	<b>Total</b>
<b>Loans (1):</b>					
Residential real estate loans	\$ 37,274	\$ 20,179	\$ 1,240	\$ -	\$ 58,693
Multi-family real estate loans	5,946	3,642	-	-	9,588
Commercial real estate loans	45,238	27,091	1,212	-	73,541
Land and construction	13,937	5,286	-	-	19,223
Consumer loans	518	257	-	97	872
<b>Total loans</b>	<b>102,913</b>	<b>56,455</b>	<b>2,452</b>	<b>97</b>	<b>161,917</b>
Federal funds sold	2,143	-	-	-	2,143
Securities (2)	3,903	-	32,812	45,737	82,452
Federal Home Loan Bank stock	3,526	-	-	-	3,526
<b>Total rate-sensitive assets</b>	<b>112,485</b>	<b>56,455</b>	<b>35,264</b>	<b>45,834</b>	<b>250,038</b>
<b>Deposit accounts (3):</b>					
Money-market deposits	28,009	-	-	-	28,009
Interest-bearing checking deposits	1,464	-	-	-	1,464
Savings deposits	1,195	-	-	-	1,195
Time deposits	72,989	11,178	-	-	84,167
<b>Total deposits</b>	<b>103,657</b>	<b>11,178</b>	<b>-</b>	<b>-</b>	<b>114,835</b>
Federal Home Loan Bank advances	43,200	25,500	-	-	68,700
Other borrowings	20,900	20,900	-	-	41,800
Junior subordinated debenture	5,155	-	-	-	5,155
<b>Total rate-sensitive liabilities</b>	<b>172,912</b>	<b>57,578</b>	<b>-</b>	<b>-</b>	<b>230,490</b>
<b>GAP (repricing differences)</b>	<b>\$ (60,427)</b>	<b>\$ (1,123)</b>	<b>\$ 35,264</b>	<b>\$ 45,834</b>	<b>\$ 19,548</b>
<b>Cumulative GAP</b>	<b>\$ (60,427)</b>	<b>\$ (61,550)</b>	<b>\$ (26,286)</b>	<b>\$ 19,548</b>	
<b>Cumulative GAP/total assets</b>	<b>(23.63)%</b>	<b>(24.07)%</b>	<b>(10.28)%</b>	<b>7.64%</b>	

- (1) In preparing the table above, adjustable-rate loans are included in the period in which the interest rates are next scheduled to adjust rather than in the period in which the loans mature. Fixed-rate loans are scheduled, including repayment, according to their maturities.
- (2) Securities are scheduled through the repricing date.
- (3) Money-market, interest-bearing checking and savings deposits are regarded as readily accessible withdrawable accounts. All other time deposits are scheduled through the maturity dates.

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The following table sets forth loan maturities by type of loan at December 31, 2008 (in thousands):

	<u>One Year or Less</u>	<u>After One But Within Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Residential real estate	\$ 3,040	\$ 3,200	\$ 52,453	\$ 58,693
Multi-family real estate	-	-	9,588	9,588
Commercial real estate	7,188	5,345	61,008	73,541
Land and construction	7,136	303	11,784	19,223
Consumer	518	257	97	872
Total	<u>\$ 17,882</u>	<u>\$ 9,105</u>	<u>\$ 134,930</u>	<u>\$ 161,917</u>

The following table sets forth the maturity or repricing of loans by interest type at December 31, 2008 (in thousands):

	<u>One Year or Less</u>	<u>After One But Within Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Fixed interest rate	\$ 15,269	\$ 2,524	\$ 7,877	\$ 25,670
Variable interest rate	87,643	47,327	1,277	136,247
Total	<u>\$ 102,912</u>	<u>\$ 49,851</u>	<u>\$ 9,154</u>	<u>\$ 161,917</u>

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their average contractual terms due to prepayments. In addition, due-on-sale clauses on loans generally give us the right to declare a conventional loan immediately due and payable in the event, among other things, that the borrower sells real property subject to a mortgage and the loan is not repaid. The average life of mortgage loans tends to increase, however, when current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when rates on existing mortgages are substantially higher than current mortgage rates.

**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

We are party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit. At December 31, 2008, we had outstanding commitments to originate real estate loans totaling \$2.0 million. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the consolidated balance sheet. The contractual amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments as we do 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 certain commitments expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if we deem it necessary in order to extend credit, is based on management's credit evaluation of the counterparty.

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The following is a summary of the Bank's contractual obligations, including certain on-balance sheet obligations, at December 31, 2008 (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Federal Home Loan Bank advances	\$ 68,700	\$ 11,000	\$ 10,000	\$ 19,500	\$ 28,200
Junior subordinated debenture	5,155	5,155	-	-	-
Other borrowings	41,800	-	-	41,800	-
Operating leases	558	133	266	159	-
Loan commitments	2,000	2,000	-	-	-
Total	<u>\$ 118,213</u>	<u>\$ 18,288</u>	<u>\$ 10,266</u>	<u>\$ 61,459</u>	<u>\$ 28,200</u>

**Deposits**

Deposits traditionally are the primary source of funds for our use in lending, making investments and meeting liquidity demands. We have focused on raising time deposits primarily within our market area, which is the tri-county area of Broward, Miami-Dade and Palm Beach counties. However, we offer a variety of deposit products, which we promote within our market area. Net deposits decreased \$10.1 million in 2008 and \$4.5 million in 2007.

In years prior to 2008, we used brokered deposits to facilitate mortgage loan fundings in circumstances when larger than anticipated loan volumes occur and there was limited time to fund the additional loan demand through traditional deposit solicitation. In general, brokered deposits can be obtained in one to three days. Historically, the rates paid on these deposits are typically equal to or slightly less than the high end of the interest rates in our market area. In 2008, local deposit rates were driven higher by troubled institutions in our market area, and we increased our use of brokered deposits because the rates we paid on brokered deposits were significantly lower than the local rates we would have been otherwise required to pay. Brokered deposits amounted to \$13.7 million and \$7.5 million as of December 31, 2008 and December 31, 2007, respectively.

The following table displays the distribution of the Bank's deposits at December 31, 2008, 2007 and 2006 (dollars in thousands):

	At December 31,					
	2008		2007		2006	
	Amount	% of Deposits	Amount	% of Deposits	Amount	% of Deposits
Noninterest-bearing demand deposits	\$ 90	.08%	\$ 1,304	1.04%	\$ 545	.42%
Interest-bearing demand deposits	1,464	1.27	967	.77	1,780	1.37
Money-market deposits	28,009	24.37	26,760	21.40	23,239	17.95
Savings	1,195	1.04	475	.39	856	.66
Subtotal	<u>30,758</u>	<u>26.76</u>	<u>29,506</u>	<u>23.60</u>	<u>26,420</u>	<u>20.40</u>
Time deposits:						
2.00% – 2.99%	\$ 7,696	6.70%	\$ -	-%	\$ 501	.39%
3.00% – 3.99%	39,678	34.53	11,721	9.37	16,578	12.80
4.00% – 4.99%	35,627	31.00	44,680	35.73	47,282	36.51
5.00% – 5.99%	1,146	1.00	37,801	30.23	38,721	29.90
6.00% – 6.99%	20	.01	1,326	1.07	-	-
Total time deposits (1)	<u>84,167</u>	<u>73.24</u>	<u>95,528</u>	<u>76.40</u>	<u>103,082</u>	<u>79.60</u>
Total deposits	<u>\$ 114,925</u>	<u>100.00%</u>	<u>\$ 125,034</u>	<u>100.00%</u>	<u>\$ 129,502</u>	<u>100.00%</u>

(1) Included are Individual Retirement Accounts (IRA's) totaling \$6,618,000 and \$7,522,000 at December 31, 2008 and 2007, respectively, all of which are in the form of time deposits.

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Deposits of \$100,000 or more, or Jumbo Time Deposits, are generally considered a more unpredictable source of funds. The following table sets forth our maturity distribution of deposits of \$100,000 or more at December 31, 2008 and 2007 (in thousands):

	<u>At December 31,</u>	
	<u>2008</u>	<u>2007</u>
Due three months or less	\$ 5,980	\$ 8,033
Due more than three months to six months	6,225	16,616
More than six months to one year	21,551	8,680
One to five years	<u>3,103</u>	<u>5,543</u>
<b>Total</b>	<b><u>\$ 36,859</u></b>	<b><u>\$ 38,872</u></b>

**ANALYSIS OF RESULTS OF OPERATIONS**

Our profitability depends to a large extent on net interest income, which is the difference between the interest received on earning assets, such as loans and securities, and the interest paid on interest-bearing liabilities, principally deposits and borrowings. Net interest income is determined by the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities (“interest-rate spread”) and the relative amounts of interest-earning assets and interest-bearing liabilities. Our interest-rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand, and deposit flows. Our results of operations are also affected by the provision for loan losses, operating expenses such as salaries and employee benefits, occupancy and other operating expenses including income taxes, and noninterest income such as loan prepayment fees.

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The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income from interest-earning assets and the resultant average yield; (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; and (v) net interest margin. Average balances are based on average daily balances (dollars in thousands):

	Years Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	Interest and Dividends	Average Yield/Rate
Interest-earning assets:									
Loans	\$ 162,157	\$ 11,236	6.93%	\$ 176,679	\$ 13,086	7.41%	\$ 175,225	\$ 12,662	7.23%
Securities	76,975	4,183	5.43	50,891	2,803	5.51	28,129	1,323	4.70
Other interest-earning assets (1)	4,786	151	3.16	4,364	248	5.68	3,851	206	5.35
Total interest-earning assets/interest income	243,918	15,570	6.38	231,934	16,137	6.96	207,205	14,191	6.85
Cash and due from banks	538			346			311		
Premises and equipment	3,181			3,433			4,034		
Other assets	3,234			2,609			3,019		
Total assets	\$ 250,871			\$ 238,322			\$ 214,569		
Interest-bearing liabilities:									
Savings, NOW and money-market deposits	32,291	1,024	3.17	26,648	1,196	4.49	11,974	390	3.26
Time deposits	81,461	3,497	4.29	97,269	4,640	4.77	108,448	4,758	4.39
Borrowings (4)	109,961	4,690	4.27	86,089	3,864	4.49	70,614	2,915	4.13
Total interest-bearing liabilities/interest expense	223,713	9,211	4.12	210,006	9,700	4.62	191,036	8,063	4.22
Noninterest-bearing demand deposits	715			1,684			747		
Other liabilities	3,478			5,289			3,214		
Stockholders' equity	22,965			21,343			19,572		
Total liabilities and stockholders' equity	\$ 250,871			\$ 238,322			\$ 214,569		
Net interest income		\$ 6,359			\$ 6,437			\$ 6,128	
Interest rate spread (2)			2.26%			2.34%			2.63%
Net interest margin (3)			2.61%			2.78%			2.96%
Ratio of average interest-earning assets to average interest-bearing liabilities			1.09			1.10			1.08

- (1) Includes interest-earning deposits with banks, Federal funds sold and Federal Home Loan Bank stock dividends.
- (2) Interest rate spread represents the difference between average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (3) Net interest margin is net interest income divided by average interest-earning assets.
- (4) Includes Federal Home Loan Bank advances, junior subordinated debenture and securities sold under an agreement to repurchase.

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**RATE/VOLUME ANALYSIS**

The following tables set forth certain information regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (change in rate multiplied by prior volume), (2) changes in volume (change in volume multiplied by prior rate) and (3) changes in rate-volume (change in rate multiplied by change in volume) (in thousands):

	<b>Year Ended December 31, 2008 versus 2007</b>			
	<b>Increases (Decreases) Due to Change In:</b>			
	<b>Rate</b>	<b>Volume</b>	<b>Rate/ Volume</b>	<b>Total</b>
<b>Interest-earning assets:</b>				
Loans	\$ (844)	\$ (1,076)	\$ 70	\$ (1,850)
Securities	(37)	1,437	(20)	1,380
Other interest-earning assets	(111)	23	(9)	(97)
<b>Total interest-earning assets</b>	<b>(992)</b>	<b>384</b>	<b>41</b>	<b>(567)</b>
<b>Interest-bearing liabilities:</b>				
Savings, NOW and money-market	(351)	253	(74)	(172)
Time deposits	(464)	(754)	75	(1,143)
Other	(192)	1,070	(52)	826
<b>Total interest-bearing liabilities</b>	<b>(1,007)</b>	<b>569</b>	<b>(51)</b>	<b>(489)</b>
<b>Net interest income</b>	<b>\$ 15</b>	<b>\$ (185)</b>	<b>\$ 92</b>	<b>\$ (78)</b>

	<b>Year Ended December 31, 2007 versus 2006</b>			
	<b>Increases (Decreases) Due to Change In:</b>			
	<b>Rate</b>	<b>Volume</b>	<b>Rate/ Volume</b>	<b>Total</b>
<b>Interest income:</b>				
Loans	\$ 316	\$ 105	\$ 3	\$ 424
Securities	227	1,071	182	1,480
Other interest-earning assets	14	26	2	42
<b>Total interest income</b>	<b>557</b>	<b>1,202</b>	<b>187</b>	<b>1,946</b>
<b>Interest expense:</b>				
Savings, NOW and money-market	148	478	180	806
Time deposits	414	(491)	(41)	(118)
Borrowings	254	638	57	949
<b>Total interest expense</b>	<b>816</b>	<b>625</b>	<b>196</b>	<b>1,637</b>
<b>Net interest income</b>	<b>\$ (259)</b>	<b>\$ 577</b>	<b>\$ (9)</b>	<b>\$ 309</b>

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**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

**General.** Net earnings for 2008 were \$520,000, or \$.17 per basic and \$.16 per diluted share, \$1.2 million less than in 2007. The primary factors explaining the decline were a \$796,000 increase in noninterest expenses coupled with a \$898,000 increase in the provision for loan losses, and a \$78,000 decrease in net interest income, partially offset by a \$690,000 decrease in income tax expense.

**Interest Income.** Interest income decreased to \$15.6 million for 2008 compared to \$16.1 million for 2007. Interest income on loans decreased to \$11.2 million due primarily to a decrease in the average loan portfolio balance and a decrease in the average yield earned in 2008. Interest on securities increased by \$1.4 million due primarily to an increase in the average balance of the securities portfolio in 2008.

**Interest Expense.** Interest expense on deposit accounts decreased to \$4.5 million for 2008, from \$5.8 million for 2007. Interest expense on deposits decreased primarily because of a decrease in the average balance of deposits and rates paid in 2008. Interest expense on borrowings increased to \$4.7 million for 2008 from \$3.9 million for 2007 due primarily to an increase in the average balance of borrowings.

**Provision for Loan Losses.** The provision for 2008 was \$1,374,000 compared to \$476,000 for 2007. In 2008, the provision was increased primarily to reflect the impairment in value of ten loans in the amount of \$1.1 million. The provision for loan losses is charged to earnings 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 loan loss 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 collectibility of our loan portfolio. The allowance for loan losses totaled \$1,906,000 or 1.18% of loans outstanding at December 31, 2008, compared to \$692,000, or .40% of loans outstanding at December 31, 2007. Management believes the balance in the allowance for loan losses at December 31, 2008 is adequate.

**Noninterest Income.** Total noninterest income decreased to \$393,000 for 2008, from \$533,000 for 2007 primarily as a result of a litigation settlement of \$155,000 in 2007 and a decrease in loan prepayment fees in 2008.

**Noninterest Expenses.** Total noninterest expenses increased to \$4.5 million for 2008 from \$3.7 million for 2007, primarily due to losses relating to foreclosed assets recorded in 2008 of \$517,000 related to one residential property, compared to no such losses in 2007.

**Income Taxes.** Income taxes for 2008, were \$313,000 (an effective rate of 37.6%) compared to income taxes of \$1,003,000 (an effective rate of 36.5%) for 2007.

**Year Ended December 31, 2007 Compared to Year Ended December 31, 2006**

**General.** Net earnings for 2007 were \$1.7 million, or \$.56 per basic and \$.55 per diluted share, \$92,000 less than in 2006. The primary factors explaining the decline were a \$175,000 increase in noninterest expenses coupled with a \$211,000 increase in the provision for loan losses, partially offset by a \$309,000 increase in net interest income.

**Interest Income.** Interest income totaled \$16.1 million in 2007, an increase of \$1.9 million, or 13.7%. This increase was primarily due to a \$22.8 million, or 80.9%, increase in the average securities portfolio balance coupled with an increase in the average yield earned on securities, from 4.70% to 5.51%, resulting in a \$1.5 million increase in interest on securities. Interest income on loans increased by 3.4%, or \$424,000, primarily due to an increase in the average yield earned on loans, from 7.23% to 7.41%.

**Interest Expense.** Interest expense totaled \$9.7 million in 2007, an increase of \$1.6 million, or 20.3%, primarily as a result of an increase in the overall cost of interest-bearing liabilities to 4.62% compared to 4.22% a year ago, coupled with a \$15.5 million or 21.9% increase in the average balance of borrowings used to fund the Company's growth. Average balances in deposit accounts increased only marginally by \$3.5 million, or 2.9%, and interest expense on deposit accounts increased by \$688,000, or 13.4%, to \$5.8 million for 2007.

**Provision for Loan Losses.** The provision for loan losses in 2007 was \$476,000 compared to \$265,000 in 2006. The provision for loan losses is charged to earnings 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

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economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectibility of our loan portfolio. The allowance for loan losses totaled \$692,000 or .40% of loans outstanding at December 31, 2007, compared to \$974,000, or .54% of loans outstanding at December 31, 2006. Management believes the balance in the allowance for loan losses at December 31, 2007 is adequate.

**Noninterest Income.** Total noninterest income decreased \$95,000, to \$533,000 in 2007, from \$628,000 in 2006, primarily due to a reduction of \$202,000 due to no gains recognized on the payoff of Federal Home Loan Bank advances in 2007, partially offset by a \$62,000 increase in litigation settlements and a \$44,000 increase in loan prepayment fees.

**Noninterest Expenses.** Noninterest expenses totaled \$3.7 million in 2007, a \$175,000 increase from 2006, due primarily to a \$59,000 increase in salaries and employee benefits, a \$49,000 increase in the FDIC insurance premium, and a \$26,000 increase in professional fees, all due to general increases in the cost of services.

**Income Taxes.** Income taxes for 2007 were \$1,003,000 (an effective rate of 36.5%) compared to income taxes of \$1,083,000 (an effective rate of 37.1%) for 2006.

**Impact of Inflation and Changing Prices**

The financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates.

**Selected Quarterly Results**

Selected quarterly results of operations for the four quarters ended December 31, 2008 and 2007 are as follows (in thousands, except share amounts):

	2008				2007			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$ 3,665	\$ 3,900	\$ 3,980	\$ 4,025	\$ 4,175	\$ 4,130	\$ 4,005	\$ 3,827
Interest expense	2,260	2,283	2,319	2,349	2,531	2,499	2,430	2,240
Net interest income	1,405	1,617	1,661	1,676	1,644	1,631	1,575	1,587
Provision (credit) for loan losses	1,213	47	(7)	121	(60)	16	209	311
Net interest income after provision for loan losses	192	1,570	1,668	1,555	1,704	1,615	1,366	1,276
Noninterest income	235	78	38	42	93	47	159	234
Noninterest expense	1,228	1,325	1,083	909	993	959	905	892
(Loss) earnings before income taxes	(801)	323	623	688	804	703	620	618
Net (loss) earnings	(498)	201	388	429	501	438	387	416
Basic (loss) earnings per common share	(.16)	.06	.12	.13	.16	.14	.12	.14
Diluted (loss) earnings per common share	(.16)	.06	.12	.13	.16	.13	.13	.13

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**Item 7. Financial Statements**

The financial statements of OptimumBank Holdings, Inc. as of and for the years ended December 31, 2008 and 2007 are set forth in this Form 10-K as Exhibit 13.1 and contain the following information:

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets, December 31, 2008 and 2007  
Consolidated Statements of Earnings for the Years Ended December 31, 2008 and 2007  
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2008 and 2007  
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008 and 2007  
Notes to Consolidated Financial Statements, December 31, 2008 and 2007 and for the Years Then Ended

**Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 8A(T). 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 Chief Executive Officer and Chief Financial Officer concluded that, subject to the limitations noted below, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) are 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 is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms.

*(b) Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Such internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, the Company used the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

*(c) Changes in Internal Controls*

We have made no significant changes in our internal controls over financial reporting during the quarter ended December 31, 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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*(d) Limitations on the Effectiveness of Controls*

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Item 8B. Other Information**

The Company did not fail to file any Form 8-K or to disclose any information required to be disclosed therein during the fourth quarter of 2008.

**PART III**

**Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act**

OptimumBank has a Code of Ethics that applies to its chief executive officer, chief operating officer, chief financial officer (who is also its chief accounting officer) and controller, a copy of which is incorporated by reference into this Form 10-K as Exhibit 14.1. This Code of Ethics is also posted on our website at [www.optimumbank.com/corpgovernance.html](http://www.optimumbank.com/corpgovernance.html).

The information contained under the sections captioned "Nominees" and "Executive Officers Who Are Not Directors" under "Proposal 1: Election of Directors and Management Information" and "The Board of Directors Meetings and Committees" under "Corporate Governance," and "Section 16(a) Beneficial Ownership Reporting Compliance," in the registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 30, 2009, at 10:00 a.m. to be filed with the SEC pursuant to Regulation 14A within 120 days of the registrant's fiscal year end (the "Proxy Statement"), is incorporated herein by reference.

**Item 10. Executive Compensation**

The information contained under the sections captioned "Directors' Compensation," "Information Regarding Executive Officer Compensation," and "Certain Relationship and Related Transactions," in the Proxy Statement, is incorporated herein by reference.

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

The information contained under the section captioned "Information Regarding Beneficial Ownership of Principal Shareholders, Directors and Management" in the Proxy Statement is incorporated herein by reference.

We had one compensation plan under which shares of our common stock were issuable at December 31, 2008. This plan is our Stock Option Plan, previously approved by our stockholders. The following table sets forth information as of December 31, 2008 with respect to the number of shares of our common stock issuable pursuant to the Stock Option Plan.

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**EQUITY COMPENSATION PLAN INFORMATION**

<b>Plan Category</b>	<b>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options Warrants and Rights</b>	<b>(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding Securities Reflected in Column (a))</b>
Equity compensation plans approved by security holders	503,587	\$ 7.68	14,239
<b>Total</b>	<u>503,587</u>	<u>\$ 7.68</u>	<u>14,239</u>

**Item 12. Certain Relationships and Related Transactions, and Director Independence**

The information contained under the section captioned “Certain Relationships and Related Transactions,” and sections captioned “Director Independence” and “The Board of Directors Meetings and Committees” under “Corporate Governance” in the Proxy Statement is incorporated herein by reference.

**Item 13. Exhibits**

**(a) The following documents are filed as part of this report**

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; (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; and (v) a quintuple asterisk (\*\*\*\*\*) were previously filed as part of an Annual Report on Form 10-KSB filed with the SEC on March 31, 2006; (v) a sextuple asterisk (\*\*\*\*\*) were previously filed as part of an Annual Report on Form 10-K filed with the SEC on March 31, 2008.

**3. Exhibits**

**	2.1	Agreement and Plan of Reorganization between OptimumBank and OptimumBank Holdings, Inc. dated March 23, 2004
***	3.1	Articles of Incorporation
	3.2	Articles of Amendment to Articles of Incorporation
***	3.3	Bylaws
****	4.1	Form of stock certificate
*****	10.1(a)	Amended and Restated Stock Option Plan
*	10.3(a)	Agreement between OptimumBank, Albert J. Finch and Richard L. Browdy dated June 14, 2002
	13.1	Consolidated Financial Statements of OptimumBank Holdings, Inc. and Report of Independent Registered Public Accounting Firm
*****	14.1	Code of Ethics for Chief Executive Officer and Senior Financial Officers
	21.1	Subsidiaries of the Registrant
	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

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32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

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(a) Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit.

**Item 14. Principal Accountant Fees and Services**

The information contained under the section captioned "Independent Accountants" in the Proxy Statement is incorporated herein by reference.

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**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be duly signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fort Lauderdale, State of Florida, on the 31st day of March 2009.

**OPTIMUMBANK HOLDINGS, INC.**

/s/ Albert J. Finch  
Albert J. Finch  
Chief Executive Officer

/s/ Richard L. Browdy  
Richard L. Browdy  
Chief Financial Officer (Chief Accounting Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 31, 2009.

<u>Signature</u>	<u>Title</u>
<u>/s/ Albert J. Finch</u> Albert J. Finch	Director
<u>/s/ Richard L. Browdy</u> Richard L. Browdy	Director
<u>/s/ Michael Bedzow</u> Michael Bedzow	Director
<u>Sam Borek</u>	Director
<u>/s/ Irving P. Cohen</u> Irving P. Cohen	Director
<u>/s/ Gordon Deckelbaum</u> Gordon Deckelbaum	Director
<u>H. David Krinsky</u>	Director
<u>/s/ Wendy Mitchler</u> Wendy Mitchler	Director
<u>/s/ Larry Willis</u> Larry Willis	Director

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**Exhibit Index**

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<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibit</u></b>
3.2	Articles of Amendment to Articles of Incorporation
13.1	OptimumBank Holdings, Inc. and Report of Independent Registered Public Accounting Firm
21.1	Subsidiaries of the Registrant
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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

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Filename: optimum091489\_ex3-2.htm  
Type: EX-3.2  
Comment/Description: ARTICLES OF AMENDMENT  
TO ARTICLES OF  
INCORPORATION

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**EXHIBIT 3.2**

**ARTICLES OF AMENDMENT  
TO ARTICLES OF INCORPORATION OF  
OPTIMUMBANK HOLDINGS, INC.**

1. Pursuant to the provisions of Section 607.1006, Florida Statutes, the undersigned corporation hereby adopts the following amendment to its Articles of Incorporation:

Article III of the Articles of Incorporation of OptimumBank Holdings, Inc. is hereby deleted in its entirety and the following new Article III is inserted in its place:

ARTICLE III

(a) The aggregate number of shares of stock of all classes that the corporation shall have authority to issue is 12,000,000 shares, of which 6,000,000 shares shall be common stock, \$.01 par value per share ("Common Stock"), and of which 6,000,000 shares shall be preferred stock, no par value ("Preferred Stock").

(b) The Board of Directors of the corporation is hereby granted the authority, subject to the provisions of this Article III and to the limitations prescribed by law, to classify the unissued shares of Preferred Stock into one or more series of Preferred Stock and with respect to each such series to fix by resolution or resolutions providing for the issuance of such series the terms, including the preferences, rights and limitations, of such series. Each series shall consist of such number of shares as shall be stated in the resolution or resolutions providing for the issuance of such series together with such additional number of shares as the Board of Directors by resolution or resolutions may from time to time determine to issue as a part of the series. The Board of Directors may from time to time decrease the number of shares of any series of Preferred Stock (but not below the number thereof then outstanding) by providing that any unissued shares previously assigned to such series shall no longer constitute part thereof and restoring such unissued shares to the status of authorized but unissued shares of Preferred Stock.

(c) The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

- (i) The number of shares constituting that series and the distinctive designation of that series;
- (ii) The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payments of dividends on shares of that series;
- (iii) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;
- (iv) Whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provisions for adjustment of the conversion rate in such events as the Board of Directors shall determine;
- (v) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption rates;
- (vi) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund; and
- (vii) Any other relative rights, preferences and limitations of that series.

(d) The holders of shares of each series of Preferred Stock shall be entitled upon liquidation or dissolution, or upon the distribution of the assets, of the Corporation to such preferences as provided in the resolution or resolutions creating the series, and no more, before any distribution of the assets of the Corporation shall be made to the holders of any other series of Preferred Stock or to the holders of shares of Common Stock. Whenever the holders of shares of Preferred Stock of all series shall have been paid the full amounts to which they shall be entitled, the holders of shares of Common Stock shall be entitled to share ratably in all the remaining assets of the Corporation.

2. The foregoing amendment was approved and adopted on November 10, 2008 by the corporation's Board of Directors and on January 6, 2009, by the corporation's shareholders. The number of votes cast for the amendment by the shareholders was sufficient for approval.

Dated: January 6, 2009

OPTIMUMBANK HOLDINGS, INC.

By: /s/Richard L. Browdy  
Richard L. Browdy  
President

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**Filename:** optimum091489\_ex13-1.htm  
**Type:** EX-13.1  
**Comment/Description:** CONSOLIDATED FINANCIAL  
STATEMENTS AND REPORT  
OF INDEPENDENT  
REGISTERED PUBLIC  
ACCOUNTING FIRM  
  
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**EXHIBIT 13.1**

**OPTIMUMBANK HOLDINGS, INC.**

Audited Consolidated Financial Statements

December 31, 2008 and 2007 and for the Years Then Ended

(Together with Report of Independent Registered Public Accounting Firm)

Index to Financial Statements

Independent Auditors' Report	F-2
Consolidated Balance Sheets, December 31, 2008 and 2007	F-3
Consolidated Statements of Earnings for the Years Ended December 31, 2008 and 2007	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2008 and 2007	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008 and 2007	F-6
Notes to Financial Statements, December 31, 2008 and 2007 and for the Years Then Ended	F-8

F-1

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**Report of Independent Registered Public Accounting Firm**

OptimumBank Holdings, Inc.  
Fort Lauderdale, Florida:

We have audited the accompanying consolidated balance sheets of OptimumBank Holdings, Inc. and Subsidiary (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

HACKER, JOHNSON & SMITH PA  
Fort Lauderdale, Florida  
March 13, 2009

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Consolidated Balance Sheets**  
**(Dollars in thousands, except share amounts)**

	December 31,	
	2008	2007
<b>Assets</b>		
Cash and due from banks	\$ 980	\$ 368
Interest-bearing deposits with banks	97	107
Federal funds sold	2,143	226
<b>Total cash and cash equivalents</b>	<b>3,220</b>	<b>701</b>
Securities held to maturity (fair value of \$78,756 and \$58,117)	82,208	58,471
Security available for sale	244	244
Loans, net of allowance for loan losses of \$1,906 and \$692	160,699	173,323
Federal Home Loan Bank stock	3,526	2,965
Premises and equipment, net	3,094	3,249
Foreclosed assets	95	79
Accrued interest receivable	1,277	1,448
Deferred tax asset	570	-
Other assets	807	1,067
<b>Total assets</b>	<b>\$ 255,740</b>	<b>\$ 241,547</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Noninterest-bearing demand deposits	\$ 90	\$ 1,304
Savings, NOW and money-market deposits	30,668	28,202
Time deposits	84,167	95,528
<b>Total deposits</b>	<b>114,925</b>	<b>125,034</b>
Federal Home Loan Bank advances	68,700	56,850
Other borrowings	41,800	28,900
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	935	1,692
Official checks	553	559
Other liabilities	907	1,076
Deferred tax liability	-	34
<b>Total liabilities</b>	<b>232,975</b>	<b>219,300</b>
Commitments and contingencies (Notes 4, 8 and 15)		
<b>Stockholders' equity:</b>		
Common stock, \$.01 par value; 6,000,000 shares authorized, 3,120,992 and 2,972,507 shares issued and outstanding	31	30
Additional paid-in capital	18,494	17,308
Retained earnings	4,244	4,913
Accumulated other comprehensive loss	(4)	(4)
<b>Total stockholders' equity</b>	<b>22,765</b>	<b>22,247</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 255,740</b>	<b>\$ 241,547</b>

See Accompanying Notes to Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Earnings  
(In thousands, except share amounts)

	Year Ended December 31,	
	2008	2007
Interest income:		
Loans	\$ 11,236	\$ 13,086
Securities	4,183	2,803
Other	151	248
Total interest income	15,570	16,137
Interest expense:		
Deposits	4,521	5,836
Borrowings	4,690	3,864
Total interest expense	9,211	9,700
Net interest income	6,359	6,437
Provision for loan losses	1,374	476
Net interest income after provision for loan losses	4,985	5,961
Noninterest income:		
Service charges and fees	141	79
Loan prepayment fees	154	294
Litigation settlement	-	155
Other	98	5
Total noninterest income	393	533
Noninterest expenses:		
Salaries and employee benefits	2,175	2,061
Occupancy and equipment	696	662
Data processing	167	171
Professional fees	376	280
Insurance	81	59
Stationary and supplies	35	39
Loss on sale of foreclosed assets	443	-
Provision for losses on foreclosed assets	74	-
Other	498	477
Total noninterest expenses	4,545	3,749
Earnings before income taxes	833	2,745
Income taxes	313	1,003
Net earnings	\$ 520	\$ 1,742
Net earnings per share:		
Basic	\$ .17	\$ .56
Diluted	\$ .16	\$ .55

See Accompanying Notes to Consolidated Financial Statements.

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Consolidated Statements of Stockholders' Equity**

**Years Ended December 31, 2008 and 2007**  
**(Dollars in thousands)**

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Compre- hensive Loss</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2006	2,820,280	\$ 28	\$ 15,930	\$ 4,474	\$ (9)	\$ 20,423
Proceeds from sale of common stock	4,172	-	37	-	-	37
Proceeds from exercise of common stock options	7,166	-	41	-	-	41
5% stock dividend (fractional shares paid in cash)	140,889	2	1,300	(1,303)	-	(1)
Comprehensive income:						
Net earnings	-	-	-	1,742	-	1,742
Net change in unrealized loss on security available for sale, net of tax	-	-	-	-	5	5
Comprehensive income						1,747
Balance at December 31, 2007	2,972,507	\$ 30	\$ 17,308	\$ 4,913	\$ (4)	\$ 22,247
5% stock dividend (fractional shares paid in cash)	148,485	1	1,186	(1,189)	-	(2)
Comprehensive income-Net earnings	-	-	-	520	-	520
Balance at December 31, 2008	<u>3,120,992</u>	<u>\$ 31</u>	<u>\$ 18,494</u>	<u>\$ 4,244</u>	<u>\$ (4)</u>	<u>\$ 22,765</u>

See Accompanying Notes to Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows  
(In thousands)

	Year Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net earnings	\$ 520	\$ 1,742
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	201	225
Provision for loan losses	1,374	476
Deferred income tax benefit	(604)	(13)
Net amortization of fees, premiums and discounts	866	372
Decrease (increase) in accrued interest receivable	171	(194)
Decrease (increase) in other assets	260	(686)
Loss on sale of foreclosed assets	443	-
Provision for losses on foreclosed assets	74	-
Decrease in official checks and other liabilities	(175)	(16)
Net cash provided by operating activities	3,130	1,906
Cash flows from investing activities:		
Purchases of securities held to maturity	(35,580)	(34,206)
Principal repayments and calls of securities held to maturity	11,399	9,193
Net decrease in loans	10,038	7,569
(Purchase) sale of premises and equipment, net	(46)	516
Proceeds from sale of foreclosed assets, net	257	-
Purchase of Federal Home Loan Bank stock	(561)	(9)
Net cash used in investing activities	(14,493)	(16,937)
Cash flows from financing activities:		
Net decrease in deposits	(10,109)	(4,468)
Net increase in other borrowings	12,900	17,950
Proceeds from Federal Home Loan Bank advances	22,500	11,300
Net (decrease) increase in advanced payment by borrowers for taxes and insurance	(757)	269
Repayments of Federal Home Loan Bank advances	(10,650)	(11,000)
Proceeds from sale of common stock	-	37
Proceeds from exercise of common stock options	-	41
Fractional shares of stock dividend paid in cash	(2)	(1)
Net cash provided by financing activities	13,882	14,128
Net increase (decrease) in cash and cash equivalents	2,519	(903)
Cash and cash equivalents at beginning of the year	701	1,604
Cash and cash equivalents at end of the year	\$ 3,220	\$ 701

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Consolidated Statements of Cash Flows, Continued  
(In thousands)**

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 9,232</u>	<u>\$ 9,697</u>
Income taxes	<u>\$ 928</u>	<u>\$ 1,014</u>
Noncash transactions:		
Change in accumulated other comprehensive loss, net change in unrealized loss on security available for sale, net of tax	<u>\$ -</u>	<u>\$ 5</u>
Common stock dividend	<u>\$ 1,187</u>	<u>\$ 1,302</u>
Loan reclassified to foreclosed assets	<u>\$ 2,390</u>	<u>\$ 79</u>
Loans made in connection with sale of foreclosed assets	<u>\$ 1,600</u>	<u>\$ -</u>

See Accompanying Notes to Consolidated Financial Statements.

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**December 31, 2008 and 2007 and the Years Then Ended**

(1) **Summary of Significant Accounting Policies**

**Organization.** 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.

**Basis of Presentation.** The accompanying consolidated financial statements include the accounts of the Holding Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting practices of the Company conform to U.S. generally accepted accounting principles and to general practices within the banking industry. The following summarizes the more significant of these policies and practices:

**Use of Estimates.** In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

**Cash and Cash Equivalents.** For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits and federal funds sold, all of which mature within ninety days.

The Company is required by law or regulation to maintain cash reserves in the form of vault cash or in accounts with other banks. There were no reserve balances required at December 31, 2008 and 2007.

**Securities.** Securities may be classified as either trading, held to maturity or available for sale. Trading securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading securities are included immediately in earnings. Held to maturity securities are those which management has the positive intent and ability to hold to maturity and are reported at amortized cost. Available for sale securities consist of securities not classified as trading securities nor as held to maturity securities. Unrealized holding gains and losses, net of tax on available for sale securities are reported as a net amount in accumulated other comprehensive loss in stockholders' equity until realized. Gains and losses on the sale of available for sale securities are determined using the specific-identification method. Premiums and discounts on securities available for sale and held to maturity are recognized in interest income using the interest method over the period to maturity.

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements, Continued**

**(1) Summary of Significant Accounting Policies, Continued**

**Loans.** Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Commitment fees, and loan origination fees are deferred and certain direct origination costs are capitalized. Both are recognized as an adjustment of the yield of the related loan.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent unless the loan is well collateralized and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**Allowance for Loan Losses.** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loans are lower than the carrying value of those loans. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) **Summary of Significant Accounting Policies, Continued**

**Allowance for Loan Losses, Continued.** A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial real estate, land and construction and multi-family real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

**Foreclosed Assets.** Assets repossessed or acquired by foreclosure or deed in lieu of foreclosure are carried at the lower of estimated fair value or the balance of the loan on the assets at date of acquisition. Costs relating to the development and improvement of assets are capitalized, whereas those relating to holding the assets are charged to expense. Valuations are periodically performed by management and losses are charged to earnings if the carrying value of the assets exceeds its estimated fair value.

**Premises and Equipment.** Land is stated at cost. Buildings and improvements, furniture, fixtures, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization expense are computed using the straight-line method over the estimated useful life of each type of asset or lease term, if shorter.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) **Summary of Significant Accounting Policies, Continued**

**Preferred Securities of Unconsolidated Subsidiary Trust.** On September 30, 2004, the Company acquired the common stock of OptimumBank Holdings Capital Trust I ("Issuer Trust"), an unconsolidated subsidiary trust. The Issuer Trust used the proceeds from the issuance of \$5,000,000 of its preferred securities to third-party investors and common stock to acquire a \$5,155,000 debenture issued by the Company. This debenture and certain capitalized costs associated with the issuance of the preferred stock comprise the Issuer Trust's only assets and the interest payments from the debentures finance the distributions paid on the preferred securities. The Company recorded the debenture in "Junior Subordinated Debenture" and its equity interest in the business trust in "Other Assets" on the consolidated balance sheets.

The Company has entered into agreements which, taken collectively, fully and unconditionally guarantee the preferred securities of the Issuer Trust subject to the terms of the guarantee.

The debenture held by the Issuer Trust currently qualifies as Tier I capital for the Company under Federal Reserve Board guidelines.

**Transfer of Financial Assets.** Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**Income Taxes.** Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences between revenues and expenses reported for financial statement and those reported for income tax purposes. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Valuation allowances are provided against assets which are not likely to be realized.

The Holding Company and the Bank file a consolidated income tax return. Income taxes are allocated proportionately to the Holding Company and subsidiary as though separate income tax returns were filed.

**Advertising.** The Company expenses all media advertising as incurred. Media advertising expense included in other in the accompanying consolidated statements of earnings was approximately \$17,000 and \$40,000 during the years ended December 31, 2008 and 2007, respectively.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

**Stock Compensation Plans.** The Company follows the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified-prospective-transition method. Under that transition method, compensation cost recognized 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, *Accounting for Stock-Based Compensation* (as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*) (collectively 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). At December 31, 2005, all outstanding options had vested.

**Earnings Per Share.** Basic earnings per share is computed on the basis of the weighted-average number of common shares outstanding. Diluted earnings per share is 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 2008 and 2007. Earnings per common share have been computed based on the following:

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Weighted-average number of common shares outstanding used to calculate basic earnings per common share	3,120,992	3,112,227
Effect of dilutive stock options	43,227	72,517
Weighted-average number of common shares outstanding used to calculate diluted earnings per common share	<u>3,164,219</u>	<u>3,184,744</u>

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

	<u>Number Outstanding</u>	<u>Exercise Price</u>	<u>Expire</u>
<i>For the year ended December 31, 2008-</i> Options	278,987	\$ 7.81-11.90	2014-2015
<i>For the year ended December 31, 2007-</i> Options	267,412	\$ 9.52-11.90	2014-2015

**Off-Balance-Sheet Financial Instruments.** In the ordinary course of business the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) **Summary of Significant Accounting Policies, Continued**

**Fair Value Measurements.** Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

In October 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. This FASB Staff Position clarifies the application of SFAS 157 in determining the fair value of a financial asset when the market for that financial asset is not active. This FASB Staff Position was effective upon issuance.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The impact of adoption had no effect on the Company.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) **Summary of Significant Accounting Policies, Continued**

**Fair Value Measurements, Continued.** The following describes valuation methodologies used for assets and liabilities measured at fair value:

*Securities Available for Sale.* Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. Securities classified within level 3 include certain residual interests in securitizations and other less liquid securities.

*Impaired Loans.* All of the Company's loans are evaluated individually for impairment. Estimates of fair value is determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's management related to values of properties in the Company's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, fair value estimates for impaired loans is classified as Level 3.

**Fair Values of Financial Instruments.** The following methods and assumptions were used by the Company in estimating fair values of financial instruments disclosed herein:

*Cash and Cash Equivalents.* The carrying amounts of cash and cash equivalents approximate their fair value.

*Securities.* Fair values for securities are based on the framework for measuring fair value established by SFAS 157.

*Federal Home Loan Bank Stock.* Fair value of the Company's investment in Federal Home Loan Bank stock is based on its redemption value, which is its cost of \$100 per share.

*Loans.* For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) **Summary of Significant Accounting Policies, Continued**

**Fair Values of Financial Instruments, Continued.**

**Deposit Liabilities.** The fair values disclosed for demand, NOW, money-market and savings deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities of time deposits.

**Accrued Interest Receivable.** The carrying amounts of accrued interest approximate their fair values.

**Federal Home Loan Bank Advances, Junior Subordinated Debenture and Other Borrowings.** Fair values of Federal Home Loan Bank advances, junior subordinated debenture and other borrowings which consist of securities sold under an agreement to repurchase are estimated using discounted cash flow analysis based on the Company's current incremental borrowings rates for similar types of borrowings.

**Off-Balance-Sheet Financial Instruments.** Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

**Comprehensive Income.** Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, such items along with net earnings, are components of comprehensive income. The only component of other comprehensive income is the net change in unrealized loss on securities available for sale for the year ended December 31, 2007.

**Recent Accounting Pronouncements.** In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) is effective for the Company's financial statements for the year and interim periods within the year beginning January 1, 2009. SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. The adoption of SFAS 141(R) had no current effect on the Company's financial condition or results of operations.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) **Summary of Significant Accounting Policies, Continued**

**Recent Accounting Pronouncements, Continued.** In December 2007, the FASB issued SFAS No.160, *Non-controlling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 requires the Company to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for the Company's financial statements for the year and interim periods within the year beginning January 1, 2009. The adoption of SFAS 160 had no effect on the Company.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). This standard requires enhanced disclosures regarding derivative instruments and hedging activities so as to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company's financial statements for the year and interim periods within the year beginning January 1, 2009. The Company does not engage in trading or hedging activities, nor does it invest in interest rate derivatives or enter into interest rate swaps. Accordingly, the adoption of SFAS 161 had no effect on its financial statements

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States. This Statement was effective in December 2008. The adoption of SFAS 162 had no effect on the Company.

In September 2008, the FASB issued FSP No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* ("FSP 133-1"). FSP 133-1 requires expanded disclosures about credit derivatives and guarantees. The expanded disclosure requirements for FSP 133-1 were effective for the Company's financial statements for the year ending December 31, 2008. The adoption of FSP 133-1 had no effect on the Company.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP 03-6-1"). FSP 03-6-1 defines unvested share-based payment awards that contain non-forfeitable rights to dividends as participating securities that should be included in computing earnings per share (EPS) using the two-class method under SFAS No. 128, *Earnings per Share*. FSP 03-6-1 is effective for the Company's financial statements for the year and interim periods within the year beginning January 1, 2009. Additionally, all prior-period EPS data shall be adjusted retrospectively. The adoption of FSP 03-6-1 had no effect on the Company.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) **Summary of Significant Accounting Policies, Continued**

**Recent Accounting Pronouncements, Continued.** In February 2008, the FASB issued FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ("FSP 140-3"). FSP 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. FSP 140-3 is effective for the Company's financial statements for the year and interim periods within the year beginning January 1, 2009. The adoption of FSP 140-3 had no effect on the Company.

**Reclassifications.** Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation.

(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):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>At December 31, 2008:</b>				
<b>Securities Held to Maturity:</b>				
Mortgage-backed securities	\$ 82,108	\$ 886	\$ (4,338)	\$ 78,656
State of Israel bond	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
	<u>\$ 82,208</u>	<u>\$ 886</u>	<u>\$ (4,338)</u>	<u>\$ 78,756</u>
<b>Security Available for Sale-</b>				
Mutual fund	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ (6)</u>	<u>\$ 244</u>
<b>At December 31, 2007:</b>				
<b>Securities Held to Maturity:</b>				
Mortgage-backed securities	\$ 58,371	\$ 229	\$ (583)	\$ 58,017
State of Israel bond	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
	<u>\$ 58,471</u>	<u>\$ 229</u>	<u>\$ (583)</u>	<u>\$ 58,117</u>
<b>Security Available for Sale-</b>				
Mutual fund	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ (6)</u>	<u>\$ 244</u>

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(2) **Securities, Continued**

Available for sale securities at December 31, 2008 measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value As of December 31, 2008	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	\$ 244	244	-	-

There were no securities sold during the years ended December 31, 2008 or 2007.

Securities with gross unrealized losses at December 31, 2008, 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
<b>Securities Held to Maturity-</b>				
Mortgage-backed securities	\$ (1,647)	\$ 21,119	\$ (2,691)	\$ 26,814
<b>Security Available for Sale-</b>				
Mutual fund	\$ -	\$ -	\$ (6)	\$ 244

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The unrealized losses on twenty investment securities were caused by market conditions. It is expected that the securities would not be settled at a price less than the par 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.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(3) Loans

The components of loans are as follows (in thousands):

	At December 31,	
	2008	2007
Residential real estate	\$ 58,693	\$ 65,908
Multi-family real estate	9,588	10,275
Commercial real estate	73,541	75,777
Land and construction	19,223	21,093
Consumer	878	15
Total loans	161,923	173,068
Add (deduct):		
Net deferred loan fees, costs and premiums	689	970
Loan discounts	(7)	(23)
Allowance for loan losses	(1,906)	(692)
Loans, net	\$ 160,699	\$ 173,323

An analysis of the change in the allowance for loan losses follows (in thousands):

	Year Ended December 31,	
	2008	2007
Beginning balance	\$ 692	\$ 974
Charge-offs	(160)	(758)
Provision for loan losses	1,374	476
Ending balance	\$ 1,906	\$ 692

Information about impaired loans, all of which are collateral dependent, is as follows (in thousands):

	At December 31,	
	2008	2007
Loans identified as impaired:		
Gross loans with no related allowance for losses	\$ 4,001	\$ -
Gross loans with related allowance for loan losses recorded	6,937	-
Less: Allowance on these loans	(1,120)	-
Net investment in impaired loans	\$ 9,818	\$ -

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Average investment in impaired loans	\$ 3,240	\$ 1,581
Interest income recognized on impaired loans	\$ -	\$ 39
Interest income received on impaired loans	\$ -	\$ 39

Impaired collateral-dependent loans are carried at the lower of cost or fair value. At December 31, 2008, those impaired collateral-dependent loans which are measured at fair value or a nonrecurring basis are as follows (in thousands):

	<u>Fair Value <sup>(1)</sup></u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Losses</u>	<u>Losses Recorded in Earnings During 2008</u>
Impaired loans	\$ 5,817	-	-	5,817	(1,120)	(1,120)

<sup>(1)</sup> In addition, loans with a carrying value of \$4.0 million were measured for impairment using Level 3 inputs and had a fair value in excess of carrying value.

Nonaccrual and past due loans were as follows (in thousands):

	<u>At December 31,</u>	
	<u>2008</u>	<u>2007</u>
Nonaccrual loans	\$ 5,086	\$ 245
Past due ninety days or more, but still accruing interest	\$ -	\$ -

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(4) Premises and Equipment

A summary of premises and equipment follows (in thousands):

	<u>At December 31,</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 1,171	\$ 1,171
Buildings and improvements	1,959	1,940
Furniture, fixtures and equipment	997	987
Leasehold improvements	119	114
Total, at cost	4,246	4,212
Less accumulated depreciation and amortization	(1,152)	(963)
Premises and equipment, net	<u>\$ 3,094</u>	<u>\$ 3,249</u>

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.

The Company currently leases two branch facilities under operating leases. One lease contains renewal options and requires the Company to pay an allowable share of common area maintenance and real estate taxes. The other lease only requires the Company to pay real estate taxes. Rent expense under operating leases during the years ended December 31, 2008 and 2007 was \$128,000 and \$119,000 respectively. At December 31, 2008, the future minimum lease payments are approximately as follows (in thousands):

<u>Year Ending</u>	<u>Amount</u>
2009	\$ 133
2010	133
2011	133
2012	84
2013	75
	<u>\$ 558</u>

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements, Continued**

**(5) Deposits**

The aggregate amount of time deposits with a minimum denomination of \$100,000, was approximately \$36.9 million and \$38.9 million at December 31, 2008 and 2007, respectively.

A schedule of maturities of time deposits at December 31, 2008 follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 72,989
2010	7,918
2011	1,207
2012	352
2013	1,701
	<u>\$ 84,167</u>

**(6) Federal Home Loan Bank Advances and Junior Subordinated Debenture**

The maturities and interest rates on the Federal Home Loan Bank ("FHLB") advances were as follows (dollars in thousands):

<u>Maturity Year Ending December 31,</u>	<u>Call Date</u>	<u>Interest Rate</u>	<u>At December 31,</u>	
			<u>2008</u>	<u>2007</u>
Daily	-	4.40%	\$ -	\$ 700
2009	-	4.92	1,000	1,000
2009	-	4.99	5,000	5,000
2009	-	4.95	5,000	5,000
2010	-	3.16	5,000	-
2010	-	3.12	5,000	-
2012	2009	4.75	4,000	4,000
2013	2008	3.42	-	2,000
2013	2008	3.09	-	3,000
2013	2008	2.80	-	1,950
2013	2008	2.56	-	3,000
2013	-	3.44	3,000	3,000
2013	2011	3.00	5,000	-
2013	2011	3.64	7,500	-
2014	2009	3.64	8,000	8,000
2016	2009	4.51	5,000	5,000
2016	2009	4.65	8,000	8,000
2016	2009	4.44	5,600	5,600
2017	2009	4.38	1,600	1,600
			<u>\$ 68,700</u>	<u>\$ 56,850</u>

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements, Continued**

**(6) Federal Home Loan Bank Advances and Junior Subordinated Debenture, Continued**

Certain of the above advances are callable by the FHLB in the year indicated.

At December 31, 2008 and 2007, the FHLB advances were collateralized by a blanket lien on qualifying residential one-to-four family mortgage loans, commercial and multi-family real estate loans, second mortgage loans and all of the Company's Federal Home Loan Bank stock.

On September 30, 2004, the Company issued a \$5,155,000 junior subordinated debenture to an unconsolidated subsidiary. The debenture has a term of thirty years. The interest rate is fixed at 6.4% for the first five years, and thereafter, the coupon rate will float quarterly at the three-month LIBOR rate plus 2.45%. The junior subordinated debenture, due in 2034, is redeemable in certain circumstances after October 2009.

**(7) Other Borrowings**

Other borrowings consist of securities sold under an agreement to repurchase. The securities sold under the agreement to repurchase were delivered to the broker-dealer who arranged the transactions. Information concerning the securities sold under an agreement to repurchase is summarized as follows (dollars in thousands):

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Balance at year end	\$ 41,800	\$ 28,900
Average balance during the year	\$ 39,051	\$ 26,971
Average interest rate during the year	4.35%	4.72%
Maximum month-end balance during the year	\$ 41,800	\$ 31,900
Securities held to maturity pledged as collateral	\$ 55,636	\$ 33,675

The maturities and interest rates on securities sold under an agreement to repurchase are as follows (dollars in thousands):

<b>Maturing Year Ended December 31,</b>	<b>Interest Rate</b>	<b>At December 31,</b>	
		<b>2008</b>	<b>2007</b>
2012	4.60%	\$ 6,000	\$ 6,000
2012	4.63%	4,500	4,500
2012	4.69%	8,000	8,000
2012	4.71%	4,600	4,600
2012	4.64%	5,800	5,800
2013	3.19%	6,500	-
2013	3.20%	6,400	-
		<u>\$ 41,800</u>	<u>\$ 28,900</u>

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements, Continued**

**(7) Other Borrowings, Continued**

At December 31, 2008, the Company also had \$6 million available under a line of credit with its correspondent bank. There were no amounts outstanding in connection with this agreement at December 31, 2008 or 2007.

**(8) Financial Instruments**

The estimated fair values of the Company's financial instruments were as follows (in thousands):

	<u>At December 31, 2008</u>		<u>At December 31, 2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 3,220	\$ 3,220	\$ 701	\$ 701
Securities held to maturity	82,208	78,756	58,471	58,117
Security available for sale	244	244	244	244
Loans	160,699	160,684	173,323	172,860
Federal Home Loan Bank stock	3,526	3,526	2,965	2,965
Accrued interest receivable	1,277	1,277	1,448	1,448
<b>Financial liabilities:</b>				
Deposit liabilities	114,925	115,807	125,034	125,134
Federal Home Loan Bank advances	68,700	71,058	56,850	56,346
Other borrowings	41,800	43,714	28,900	29,317
Junior subordinated debenture	5,155	4,871	5,155	5,083
Off-balance sheet financial instruments	-	-	-	-

The Company is 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 amount recognized in the consolidated balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these 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 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.

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements, Continued**

**(8) Financial Instruments, Continued**

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. Because some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit, is based on management's credit evaluation of the counterparty.

Commitments to extend credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Company's financial instruments with off-balance-sheet risk at December 31, 2008 follows (in thousands):

	<b><u>Contract Amount</u></b>
Commitments to extend credit	<u>\$ 2,000</u>

**(9) Credit Risk**

The Company grants the majority of its loans to borrowers throughout Broward and portions of Palm Beach and Miami-Dade Counties, Florida. Although the Company has a diversified loan portfolio, a significant portion of its borrowers' ability to honor their contracts is dependent upon the economy in Broward, Palm Beach and Miami-Dade Counties, Florida.

**(10) Income Taxes**

Income taxes consisted of the following (in thousands):

	<b><u>Year Ended December 31,</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Current:		
Federal	\$ 784	\$ 866
State	133	150
Total current	<u>917</u>	<u>1,016</u>
Deferred:		
Federal	(516)	(10)
State	(88)	(3)
Total deferred	<u>(604)</u>	<u>(13)</u>
Total	<u>\$ 313</u>	<u>\$ 1,003</u>

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(10) **Income Taxes, Continued**

The reasons for the differences between the statutory Federal income tax rate and the effective tax rate are summarized as follows (dollars in thousands):

	Year Ended December 31,			
	2008		2007	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Income taxes at statutory rate	\$ 283	34.0%	\$ 933	34.0%
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	30	3.6	97	3.5
Other	-	-	(27)	(1.0)
	<u>\$ 313</u>	<u>37.6%</u>	<u>\$ 1,003</u>	<u>36.5%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands).

	At December 31,	
	2008	2007
Deferred tax assets:		
Allowance for loan losses	\$ 638	\$ 186
Premises and equipment	22	-
Unrealized loss on security available for sale	2	2
Deferred tax assets	<u>662</u>	<u>188</u>
Deferred tax liabilities:		
Loan costs	(31)	(39)
Accrual to cash adjustment	-	(62)
Premises and equipment	-	(104)
Other	(61)	(17)
Deferred tax liabilities	<u>(92)</u>	<u>(222)</u>
Net deferred tax asset (liability)	<u>\$ 570</u>	<u>\$ (34)</u>

(11) **Related Party Transactions**

The Company has entered into transactions with its executive officers, directors and their affiliates in the ordinary course of business. There were loans to related parties at December 31, 2008 and 2007 of approximately \$8,292,000 and \$3,810,000, respectively. At December 31, 2008 and 2007, these same related parties had approximately \$1,488,000 and \$1,436,000, respectively, on deposit with the Company.

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements, Continued**

**(12) Stock-Based Compensation**

The Company established an Incentive Stock Option Plan (the "Plan") for officers, directors and employees of the Company and reserved 600,686 (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's board of directors authorized the immediate vesting of all stock options outstanding as of December 29, 2005 in order to reduce noncash compensation expense that would have been recorded in its consolidated statements of earnings in future years upon adoption of SFAS 123(R) in January 2006. The options must be exercised within ten years from the date of grant. At December 31, 2008, 14,239 options were available for grant.

A summary of the activity in the Company's stock option plan is as follows. All option amounts reflect the 5% stock dividends declared in May 2008 and 2007 (dollars in thousands, except share amounts):

	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2006	514,805	\$ 7.66		
Exercised	(7,166)	5.67		
Forfeited	(4,052)	10.00		
Outstanding at December 31, 2007 and 2008	<u>503,587</u>	<u>\$ 7.68</u>		
Exercisable at December 31, 2008	<u>503,587</u>	<u>\$ 7.68</u>	<u>4.7 years</u>	<u>\$ 35</u>

The total intrinsic value of options exercised during the year ended December 31, 2007 was \$16,675. There was no tax benefit recognized in 2007.

Effective January 1, 2002, the Board of Directors adopted a nonemployee director compensation and stock purchase plan under which each outside director was required to purchase Company stock with compensation for board meetings at a price no less than fair market value. A total of 15,941 shares (as adjusted to reflect the 5% stock dividend declared in May 2007) were authorized for issuance to outside directors under this plan. A total of 4,172 shares of common stock were issued to outside directors under this plan during the year ended December 31, 2007. This plan was terminated effective January 1, 2008.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(13) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the regulatory banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and percentages (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008, the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percentages as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and percentages are also presented in the table (dollars in thousands).

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
<b>As of December 31, 2008:</b>						
Total Capital to Risk-Weighted Assets	\$ 29,357	18.91%	\$ 12,419	8.00%	\$ 15,524	10.00%
Tier I Capital to Risk-Weighted Assets	27,451	17.68	6,210	4.00	9,314	6.00
Tier I Capital to Total Assets	27,451	10.71	10,254	4.00	12,818	5.00
<b>As of December 31, 2007:</b>						
Total Capital to Risk-Weighted Assets	27,966	17.95	12,465	8.00	15,581	10.00
Tier I Capital to Risk-Weighted Assets	27,274	17.50	6,232	4.00	9,349	6.00
Tier I Capital to Total Assets	27,274	11.15	9,787	4.00	12,234	5.00

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements, Continued**

**(14) Dividends**

The Company is limited in the amount of cash dividends that may be paid. Banking regulations place certain restrictions on dividends and loans or advances made by the Bank to the Holding Company. The amount of cash dividends that may be paid by the Bank to the Holding Company is based on the Bank's net earnings of the current year combined with the Bank's retained earnings of the preceding two years, as defined by state banking regulations. However, for any dividend declaration, the Company must consider additional factors such as the amount of current period net earnings, liquidity, asset quality, capital adequacy and economic conditions. It is likely that these factors would further limit the amount of dividend which the Company could declare. In addition, bank regulators have the authority to prohibit banks from paying dividends if they deem such payment to be an unsafe or unsound practice.

**(15) Contingencies**

Various claims also arise from time to time in the normal course of business. In the opinion of management, none have occurred that will have a material effect on the Company's consolidated financial statements.

**(16) Simple IRA**

The Company has a Simple IRA Plan whereby substantially all employees participate in the Plan. Employees may contribute up to 15 percent of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions equal to the first 3% of an employee's compensation contributed to the Plan. Matching contributions vest to the employee immediately. For the years ended December 31, 2008 and 2007, expense attributable to the Plan amounted to \$45,525 and \$42,333, respectively.

**(17) Stock Purchase Plan**

On September 25, 2008, the Company adopted a stock purchase plan (the "Plan"). The Plan allows the Company to purchase up to 5% of the common stock outstanding (approximately 156,050 shares). As of December 31, 2008, no shares had been purchased.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(18) Holding Company Financial Information

The Holding Company's unconsolidated financial information as of December 31, 2008 and 2007 and for the years then ended follows (in thousands):

Condensed Balance Sheets

	At December 31,	
	2008	2007
<b>Assets</b>		
Cash	\$ 362	\$ 13
Investment in subsidiary	27,447	27,270
Other assets	256	218
<b>Total assets</b>	<b>\$ 28,065</b>	<b>\$ 27,501</b>
<b>Liabilities and Stockholders' Equity</b>		
Other liabilities	\$ 145	\$ 99
Junior subordinated debenture	5,155	5,155
Stockholders' equity	22,765	22,247
<b>Total liabilities and stockholders' equity</b>	<b>\$ 28,065</b>	<b>\$ 27,501</b>

Condensed Statements of Earnings

	Year Ended December 31,	
	2008	2007
Earnings of subsidiary	\$ 852	\$ 2,011
Interest expense	(320)	(320)
Other expense	(213)	(111)
Earnings before income tax benefit	319	1,580
Income tax benefit	(201)	(162)
<b>Net earnings</b>	<b>\$ 520</b>	<b>\$ 1,742</b>

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(18) Holding Company Financial Information, Continued

Condensed Statements of Cash Flows

	Year Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net earnings	\$ 520	\$ 1,742
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(852)	(2,011)
(Increase) decrease in other assets	(38)	37
Increase (decrease) in accrued other liabilities	46	(4)
Net cash used in operating activities	<u>(324)</u>	<u>(236)</u>
Cash flow from investing activities:		
Dividend from subsidiary	675	175
Investment in subsidiary	-	(78)
Net cash provided by investing activities	<u>675</u>	<u>97</u>
Cash flows from financing activities:		
Proceeds from sale of common stock	-	37
Proceeds from exercise of common stock options	-	41
Fractional shares of stock dividend paid in cash	(2)	(1)
Net cash provided by financing activities	<u>(2)</u>	<u>77</u>
Net increase (decrease) in cash	349	(62)
Cash at beginning of the year	<u>13</u>	<u>75</u>
Cash at end of year	<u>\$ 362</u>	<u>\$ 13</u>
Noncash transactions:		
Change in accumulated other comprehensive loss of subsidiary, net change in unrealized loss on security available for sale, net of tax	<u>\$ -</u>	<u>\$ 5</u>
Common stock dividend	<u>\$ 1,187</u>	<u>\$ 1,302</u>

Filename: optimum091489\_ex21-1.htm  
Type: EX-21.1  
Comment/Description: SUBSIDIARIES OF THE REGISTRANT  
(this header is not part of the document)

EXHIBIT 21.1

**SUBSIDIARIES OF THE REGISTRANT**

<b><u>NAME</u></b>	<b><u>STATE OF ORGANIZATION</u></b>
OPTIMUMBANK	FLORIDA
OPTIMUMBANK HOLDINGS CAPITAL TRUST I	DELAWARE

Filename: optimum091489\_ex31-1.htm  
Type: EX-31.1  
Comment/Description: CERTIFICATION OF CEO  
PURSUANT TO SECTION 302  
(this header is not part of the document)

**EXHIBIT 31.1**

**Certification of the Chief Executive Officer  
Required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934**

I, Albert J. Finch, certify that:

1. I have reviewed this report on Form 10-K of OptimumBank Holdings, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within that entity, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the Audit Committee of the Company's Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2009

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

Filename: optimum091489\_ex31-2.htm  
Type: EX-31.2  
Comment/Description: CERTIFICATION OF CFO  
PURSUANT TO SECTION 302  
(this header is not part of the document)

**EXHIBIT 31.2**

**Certification of the Chief Financial Officer  
Required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934**

I, Richard L. Browdy, certify, that:

1. I have reviewed this report on Form 10-K of OptimumBank Holdings, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within that entity, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the Audit Committee of the Company's Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2009

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

Filename: optimum091489\_ex32-1.htm  
Type: EX-32.1  
Comment/Description: CERTIFICATION OF CEO  
PURSUANT TO SECTION 906  
(this header is not part of the document)

Exhibit 32.1

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADDED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of OptimumBank Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Albert J. Finch, Chief Executive Officer of the Company, certify, pursuant to 19 U.S.C. § 1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: March 31, 2009

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

Filename: optimum091489\_ex32-2.htm  
Type: EX-32.2  
Comment/Description: CERTIFICATION OF CFO  
PURSUANT TO SECTION 906  
(this header is not part of the document)

Exhibit 32.2

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADDED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of OptimumBank Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Richard L. Browdy, Chief Financial Officer of the Company, certify, pursuant to 19 U.S.C. § 1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: March 31, 2009

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