

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

OptimumBank Holdings, Inc.
Form 10KSB
April 02, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

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

COMMISSION FILE NUMBER: 0001288855

OPTIMUMBANK HOLDINGS, INC.

(Name of small business issuer in its charter)

FLORIDA
(State or other jurisdiction
of incorporation or organization)

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

2477 EAST COMMERCIAL BOULEVARD, FORT LAUDERDALE, FLORIDA
(Address of principal executive offices)

33308
(Zip Code)

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

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

COMMON STOCK, PAR VALUE \$.01 PER SHARE
(Title of Class)

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 S-B 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-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for its most recent fiscal year were \$14,819,000.

The aggregate market value of the Common Stock of the issuer held by non-affiliates of the issuer (1,906,025 shares) on March 14, 2007, was approximately \$16,963,623. The aggregate market value was computed by reference to the closing market price of the Common Stock of the issuer at \$8.90 per share on March 14, 2007. For the purposes of this response, directors and executive officers are considered the affiliates of the issuer at that date.

As of March 14, 2007, there were issued and outstanding 2,820,280 shares of the issuer's Common Stock.

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 26, 2007 to be filed with Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the issuer's fiscal year end are incorporated into Part III, Items 9 through 12, and 14, of this Annual Report on Form 10-KSB.

TABLE OF CONTENTS

| | Page |
|---|------|
| | ---- |
| Item 1. Business | |
| Forward-Looking Statements..... | 1 |
| General..... | 1 |
| Banking Products..... | 1 |
| Strategy..... | 2 |
| Lending Activities..... | 2 |
| Deposit Activities..... | 3 |
| Investments..... | 3 |
| Correspondent Banking..... | 3 |
| Data Processing..... | 3 |
| Internet Banking..... | 3 |
| Competition..... | 4 |
| Employees..... | 4 |
| Supervision and Regulation..... | 4 |
| Statistical Profile and Other Financial Data..... | 8 |
| Item 2. Properties..... | 8 |
| Item 3. Legal Proceedings..... | 9 |
| Item 4. Submission of Matters to a Vote of Security Holders..... | 9 |
| PART II..... | 9 |
| Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters..... | 9 |
| Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 10 |
| Item 7. Financial Statements..... | 23 |
| Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..... | 23 |
| Item 8A. Controls and Procedures..... | 23 |
| PART III..... | 23 |
| Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act..... | 23 |
| Item 10. Executive Compensation..... | 23 |
| Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters..... | 24 |
| Item 12. Certain Relationships and Related Transactions and | |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | |
|--|----|
| Director Independence..... | 24 |
| Item 13. Exhibits..... | 25 |
| Item 14. Principal Accountant Fees and Services..... | 25 |
| SIGNATURES..... | 26 |

i

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:

- o competitive pressure in the banking industry that increases significantly;
- o changes in the interest rate environment that reduce margins;
- o 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;
- o changes that occur in the regulatory environment; and
- o 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. (the "Company") was formed in March 2004 as a Florida corporation to serve as a one-bank holding company for OptimumBank (the "Bank"), a Florida state chartered bank. The Company acquired all of the shares of the Bank in May 2004 in a statutory share exchange. The Company's only business is the operation of the Bank which opened for business in November 2000. The Bank provides community banking services and products to individuals and businesses in Broward, Miami-Dade and Palm Beach counties. The Company currently operates out of its main office and three branch banking offices in Broward County, Florida. As a registered bank holding company, the Company is regulated by the Federal Reserve Board. The Bank is a member of the Federal Home Loan Bank of Atlanta and is regulated by the State of Florida Department of Financial Services and the Federal Deposit Insurance Corporation, the insurer of its deposits. As of December 31, 2006, the Company has grown to \$225.7 million in assets, \$181.9 million in net loans and \$129.5 million in deposits.

BANKING PRODUCTS

Our revenues are primarily derived from interest on, and fees received

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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 Federal Deposit Insurance Corporation ("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.

We provide a range of consumer and commercial banking services to individuals, businesses and industries. 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.

1

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 and reasonable 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. Growing and expanding our presence in Broward County by establishing new branch offices - we currently have three branch banking offices in Broward County;
3. Emphasizing 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

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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, 2006 were \$181.9 million, or 80.5% of total assets. The interest rates charged 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, 2006, almost 100% of our loan portfolio consisted of loans secured by mortgages on real estate, of which approximately 39.0% of the total loan portfolio is 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 loan portfolio consists of one loan to an individual that is unsecured. This loan is for a term of less than one year.

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 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.

2

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 68.4% of our total deposits at December 31, 2006. Approximately 79.6% of our deposits at December 31, 2006 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 31.6% of our total deposits at December 31, 2006. 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.

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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 the Bank's competitive market area. Brokered deposits amounted to 6.4% and 8.1% of our total deposits at December 31, 2006 and 2005, respectively.

INVESTMENTS

We invest a portion of our assets in U.S. Government agency obligations 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 where customers can access

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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.

3

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, 2006, we had 20 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 the Company and the Bank. 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 the Company and the 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"), the Company is subject to the regulation and supervision of, and inspection by, the Federal Reserve Board ("Federal Reserve"). The Company 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

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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 the Company, 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 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

4

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

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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". The Company has no current plans to utilize the structural options created by the GLB Act.

SECURITIES REGULATION AND CORPORATION GOVERNANCE. The Company's common stock is registered with the Securities and Exchange Commission (the "SEC") under Section 12(g) of the Securities Exchange Act of 1934, and the Company is subject to restrictions, reporting requirements and review procedures under federal securities laws and regulations. The Company is also subject to the rules and reporting requirements of the Nasdaq Global Market, on which its common stock is traded. Like other issuers of publicly traded securities, the Company 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 company (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. The Bank is chartered under the laws of the State of Florida, and its deposits are insured by the FDIC to the extent provided by law. The Bank 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. The Bank 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 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,

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

consolidations, and similar corporate actions.

5

DIVIDENDS. The Company's ability to pay dividends is substantially dependent on the ability of the Bank to pay dividends to the Company. 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 the Bank to pay dividends to the Company, 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 the Bank 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 the Bank's capital, the maximum loan the Bank is currently permitted to make is approximately \$6.3 million, provided the unsecured portion does not exceed approximately \$3.8 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 the Bank 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

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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. The Bank's loans are also subject to federal laws applicable to consumer credit transactions, such as the:

- |X| Federal Truth-In-Lending Act governing disclosures of credit terms to consumer borrowers;
- |X| 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;
- |X| 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 the community it serves;
- |X| Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed or other prohibitive factors in extending credit;
- |X| 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;
- |X| Fair Debt Collection Act governing the manner in which consumer debts may be collected by collection agencies;
- |X| 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
- |X| the rules and regulations of various federal agencies charged with the responsibility of implementing such federal laws.

6

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

- |X| 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;
- |X| 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
- |X| Electronic Funds Transfer Act and Regulation E, which govern automatic deposits to, and withdrawals from, deposit accounts and

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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, 2006, the Company and 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, 2006, the Bank met the capital requirements of a "well capitalized" institution.

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

7

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

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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

The Company's 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, 2006.

| LOCATION ----- | YEAR FACILITY OPENED ----- | FACILITY STATUS ----- |
|--|----------------------------------|--------------------------|
| Executive Office ----- | | |
| 2477 East Commercial Boulevard Fort Lauderdale, Florida 33308 | 2004 | Owned |
| Branch Offices ----- | | |
| 10197 Cleary Boulevard Plantation, Florida 33324 | 2000 | Owned |
| 3524 North Ocean Boulevard Fort Lauderdale, Florida 33308 | June 2003 | Owned (1) |
| 2215 West Hillsboro Boulevard Deerfield Beach, Florida 22442 | January 2004 | Leased (2) |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

- (1) On February 1, 2007, the Company entered into a sale/leaseback transaction for this facility. No gain or loss will be recognized on this transaction.
- (2) Lease is for a ten-year term, with two five-year options to renew, for 2500 square feet. The monthly lease payment as of December 2006 is \$6,183.

8

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2006, we were a party to one legal proceeding, the outcome of which will not have a material adverse effect on our business, 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, 2006.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the NASDAQ Global Stock Market under the symbol OPHC. On March 14, 2007, we had approximately 225 shareholders of record. The high and low common stock prices per share during 2005 and 2006 were as follows:

| YEAR | QUARTER | HIGH | LOW |
|------|---------|---------|---------|
| ---- | ----- | ---- | --- |
| 2005 | First | \$13.50 | \$10.25 |
| | Second | \$12.00 | \$ 9.90 |
| | Third | \$11.20 | \$ 9.80 |
| | Fourth | \$10.50 | \$ 9.90 |
| 2006 | First | \$11.05 | \$ 9.74 |
| | Second | \$14.23 | \$10.71 |
| | Third | \$13.05 | \$10.40 |
| | Fourth | \$11.00 | \$10.35 |

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 of Financial Services, 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.

Information regarding recent sales of unregistered common stock under the Company's Non-Employee Directors' Fee Compensation and Stock Purchase Plan is included in Item 11 of Part III of this Form 10-KSB.

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

9

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)

| | 2006 | 2005 | 2004 |
|---|------------|---------|---------|
| | ----- | ----- | ----- |
| AT YEAR END: | | | |
| Cash and cash equivalents | \$ 1,604 | 1,154 | 3,223 |
| Securities held to maturity | 33,399 | 25,618 | 24,134 |
| Security available for sale | 241 | 243 | 247 |
| Loans, net | 181,878 | 170,226 | 128,810 |
| Loans held for sale | -- | -- | 509 |
| All other assets | 8,581 | 8,803 | 7,635 |
| | ----- | ----- | ----- |
| Total assets | \$ 225,703 | 206,044 | 164,558 |
| | ===== | ===== | ===== |
| Deposit accounts | 129,502 | 114,064 | 97,994 |
| Federal Home Loan Bank advances | 56,550 | 52,950 | 37,650 |
| Other borrowings | 10,950 | 12,950 | 5,000 |
| Junior subordinated debenture | 5,155 | 5,155 | 5,155 |
| All other liabilities | 3,123 | 2,515 | 2,036 |
| Stockholders' equity | 20,423 | 18,410 | 16,723 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 225,703 | 206,044 | 164,558 |
| | ===== | ===== | ===== |
| FOR THE YEAR: | | | |
| Total interest income | 14,191 | 11,334 | 8,815 |
| Total interest expense | 8,063 | 5,841 | 4,032 |
| | ----- | ----- | ----- |
| Net interest income | 6,128 | 5,493 | 4,783 |
| Provision for loan losses | 265 | 149 | 136 |
| | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 5,863 | 5,344 | 4,647 |
| Noninterest income | 628 | 635 | 690 |
| Noninterest expenses | 3,574 | 3,396 | 2,801 |
| | ----- | ----- | ----- |
| Earnings before income taxes | 2,917 | 2,583 | 2,536 |
| Income taxes | 1,083 | 982 | 966 |
| | ----- | ----- | ----- |
| Net earnings | \$ 1,834 | 1,601 | 1,570 |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | | | |
|---|-----------|-----------|-----------|
| Net earnings per share, basic (1) | \$.65 | .57 | .57 |
| Net earnings per share, diluted (1) | \$.63 | .56 | .55 |
| Weighted-average number of shares outstanding, basic (1) | 2,813,022 | 2,791,790 | 2,768,140 |
| Weighted-average number of shares outstanding, diluted (1) | 2,932,986 | 2,884,152 | 2,854,596 |
| RATIOS AND OTHER DATA: | | | |
| Return on average assets | .85% | .86% | 1.06% |
| Return on average equity | 9.37% | 9.09% | 10.05% |
| Average equity to average assets | 9.12% | 9.42% | 10.53% |
| Net interest margin during the year | 2.96% | 3.08% | 3.35% |
| Interest-rate differential during the year | 2.63% | 2.84% | 3.05% |
| Net yield on average interest-earning assets | 6.85% | 6.36% | 6.18% |
| Noninterest expenses to average assets | 1.67% | 1.82% | 1.89% |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 1.08 | 1.08 | 1.11 |
| Nonperforming loans and foreclosed real estate as a percentage of total assets at end of year | -- | -- | 2.54% |
| Allowance for loan losses as a percentage of total loans at end of year | .54% | .46% | .49% |
| Total number of banking offices | 3 | 3 | 3 |
| Total shares outstanding at end of year (1) | 2,820,280 | 2,796,964 | 2,782,607 |
| Book value per share at end of year (1) | \$ 7.24 | 6.58 | 6.01 |

(1) All share and per share amounts have been adjusted to reflect the 5% stock dividend declared in April 2006 and paid in June 2006.

10

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DECEMBER 31, 2006 AND 2005 AND THE YEARS THEN ENDED

GENERAL

The Company is a one-bank holding company formed in 2004 as a Florida corporation to acquire all the shares of OptimumBank, a Florida state chartered bank. The Company's only business is the ownership and operation of the bank which opened in November 2000. We provide community banking services and products to individuals and businesses in Broward, Miami-Dade and Palm Beach counties. The bank's deposits are insured by the FDIC. At December 31, 2006, we had total assets of \$225.7 million, net loans of \$181.9 million, total deposits of \$129.5 million and stockholders' equity of \$20.4 million. During 2006, we had net earnings of \$1,834,000.

CRITICAL ACCOUNTING POLICIES

Our financial condition and results of operations are sensitive to accounting measurements and estimates of matters that are inherently uncertain.

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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 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, 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.

11

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

AT DECEMBER 31,

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | 2006 | | 2005 | |
|---------------------------|------------------------|------------|------------|------------|
| | AMOUNT | % OF TOTAL | AMOUNT | % OF TOTAL |
| | (DOLLARS IN THOUSANDS) | | | |
| Residential real estate | \$ 70,868 | 38.99% | \$ 65,016 | 38.29% |
| Multi-family real estate | 10,769 | 5.93 | 15,135 | 8.91 |
| Commercial real estate | 68,852 | 37.89 | 54,286 | 31.97 |
| Land and construction | 31,022 | 17.07 | 34,760 | 20.47 |
| Commercial | -- | -- | 570 | .33 |
| Consumer and other | 227 | .12 | 43 | .03 |
| Total loans | 181,738 | 100.00% | 169,810 | 100.00% |
| Add (deduct): | | | | |
| Allowance for loan losses | (974) | | (777) | |
| Net deferred loan costs | 1,114 | | 1,193 | |
| Loans, net | \$ 181,878 | | \$ 170,226 | |

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

| | YEAR ENDED DECEMBER 31, | |
|---------------------------|----------------------------|--------|
| | 2006 | 2005 |
| Beginning balance | \$ 777 | \$ 628 |
| Provision for loan losses | 265 | 149 |
| Loans charged off | (68) | -- |
| Ending balance | \$ 974 | \$ 777 |

We evaluate the allowance for loan losses on a regular basis. It is based upon our periodic review of the collectibility of the existing loan portfolio 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 underlying collateral and prevailing economic conditions. We base the allowance for loan losses on a grading system and also allocate an allowance by loan type based on the aggregate historical loss experience of similar banks. The allowance for loan losses represented .54% and .46% of the total loans outstanding at December 31, 2006 and 2005, respectively. The loan charge off of \$68,000 in 2006 represents construction cost overruns advanced by the Company in lieu of an increase in the outstanding balance of a loan for the construction of a single family residence.

The following table sets forth our allowance for loan losses by loan

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

type (dollars in thousands):

ALLOWANCE FOR LOAN LOSSES

| | AT DECEMBER 31, | | | |
|--|-----------------|------------------------|--------|------------------------|
| | 2006 | | 2005 | |
| | AMOUNT | % OF TOTAL LOANS | AMOUNT | % OF TOTAL LOANS |
| Residential real estate | \$400 | 38.99% | \$206 | 38.29% |
| Multi-family real estate | 54 | 5.93 | 81 | 8.91 |
| Commercial real estate | 406 | 37.89 | 347 | 31.97 |
| Land and construction | 114 | 17.07 | 140 | 20.47 |
| Commercial | -- | -- | 3 | .33 |
| Consumer and other | -- | .12 | -- | .03 |
| | | | | |
| Total allowance for loan losses | \$974 | 100.00% | \$777 | 100.00% |
| | | | | |
| Allowance for loan losses as a percentage of total loans outstanding | 0.54% | | 0.46% | |

There were no impaired loans in 2006 or at December 31, 2005. During 2005, the average net investment in impaired loans and interest income recognized and received on impaired loans is as follows (in thousands):

| | |
|--|-------|
| Average net investment in impaired loans | \$844 |
| | ===== |
| Interest income recognized on impaired loans | \$ -- |
| | ===== |
| Interest income received on impaired loans | \$ -- |
| | ===== |

At December 31, 2006 and 2005, the Company had no nonaccrual loans or loans over 90 days still accruing interest. During the year ended December 31, 2005, the Company recorded a \$243,000 provision for losses on foreclosed assets with respect to one foreclosed residential real estate loan which was sold during the same year.

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

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

facilitated through liquidity management.

Our primary sources of cash during the year ended December 31, 2006 were from net deposit inflows of \$15.4 million, Federal Home Loan Bank advances of \$3.8 million, and principal repayments of securities held to maturity of \$4.0 million. Cash was used primarily to originate real estate loans totaling \$12.3 million and to purchase securities held to maturity totaling \$12.0 million. In order to increase our core deposits, we have priced our deposit rates competitively. We will 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, 2006, we had \$56.6 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 \$6.0 million, none of which was outstanding at December 31, 2006. This credit line is normally used to meet short-term funding demands. At December 31, 2006, we sold securities under an agreement to repurchase totaling \$10,950,000. These borrowings are collateralized by securities held to maturity with a carrying value of \$15.4 million at December 31, 2006. We believe our liquidity sources are adequate to meet our operating needs.

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):

| | AMORTIZED COST | FAIR VALUE |
|------------------------------|-------------------|---------------|
| | ----- | ----- |
| AT DECEMBER 31, 2006: | | |
| Securities held to maturity: | | |
| Mortgage-backed securities | \$33,299 | \$33,050 |
| Foreign bond | 100 | 100 |
| | ----- | ----- |
| | \$33,399 | \$33,150 |
| | ===== | ===== |
| Available for sale- | | |
| Mutual fund | \$ 250 | \$ 241 |
| | ===== | ===== |
| AT DECEMBER 31, 2005: | | |
| Securities held to maturity- | | |
| Mortgage-backed securities | \$25,618 | \$25,096 |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | | |
|---------------------|--------|--------|
| | ===== | ===== |
| Available for sale- | | |
| Mutual fund | \$ 250 | \$ 243 |
| | ===== | ===== |

14

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

| | WITHIN ONE YEAR ----- | AFTER ONE BUT WITHIN FIVE YEARS ----- | AFTER FIVE YEARS THROUGH TEN YEARS ----- | AFTER TEN YEARS ----- | |
|----------------------------|-----------------------------|---|--|-----------------------------|-------|
| AT DECEMBER 31, 2006: | | | | | |
| Mortgage-backed securities | \$ -- | -- | -- | 33,299 | 3 |
| | ===== | ===== | ===== | ===== | ===== |
| Foreign bond | \$ -- | -- | 100 | -- | |
| | ===== | ===== | ===== | ===== | ===== |

REGULATORY CAPITAL ADEQUACY

The Bank is subject to various regulatory capital requirements administered by the Federal and state banking agencies. As of December 31, 2006, 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.

REGULATORY CAPITAL REQUIREMENTS

| | ACTUAL | | FOR CAPITAL ADEQUACY PURPOSES | |
|--------------------------|-----------------|------------|----------------------------------|------------|
| | AMOUNT ----- | % ----- | AMOUNT ----- | % ----- |
| AS OF DECEMBER 31, 2006: | | | | |
| Total Capital to Risk- | | | | |
| Weighted Assets | \$26,334 | 16.72% | \$12,599 | 8.00% |
| Tier I Capital to Risk- | | | | |
| Weighted Assets | 25,360 | 16.10 | 6,299 | 4.00 |
| Tier I Capital | | | | |
| to Total Assets | 25,360 | 11.24 | 9,026 | 4.00 |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

AS OF DECEMBER 31, 2005:

| | | | | |
|-------------------------|--------|-------|--------|------|
| Total Capital to Risk- | | | | |
| Weighted Assets | 23,891 | 16.27 | 11,746 | 8.00 |
| Tier I Capital to Risk- | | | | |
| Weighted Assets | 23,114 | 15.74 | 5,874 | 4.00 |
| Tier I Capital | | | | |
| to Total Assets | 23,114 | 11.50 | 8,040 | 4.00 |

15

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 the 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 established and implemented 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.

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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.

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.

16

The following table sets forth certain information relating to our interest-earning assets and interest-bearing liabilities at December 31, 2006, that are estimated to mature or are scheduled to reprice within the period shown (dollars in thousands):

GAP MATURITY / REPRICING SCHEDULE

| | ONE YEAR OR LESS ----- | MORE THAN ONE YEAR AND LESS THAN FIVE YEARS ----- | MORE THAN FIVE YEARS AND LESS THAN FIFTEEN YEARS ----- |
|------------------------------------|---------------------------------|--|---|
| Loans (1): | | | |
| Residential real estate loans | \$ 28,009 | 40,339 | 2,520 |
| Multi-family real estate loans | 4,442 | 6,327 | -- |
| Commercial real estate loans | 9,878 | 56,381 | 2,593 |
| Land and construction | 4,222 | 26,800 | -- |
| Consumer loans | 227 | - | -- |
| | ----- | ----- | ----- |
| Total loans | 46,778 | 129,847 | 5,113 |
| Federal funds sold | 681 | -- | -- |
| Securities (2) | 2,776 | 4,506 | 10,724 |
| Federal Home Loan Bank stock | 2,956 | - | -- |
| | ----- | ----- | ----- |
| Total rate-sensitive assets | 53,191 | 134,353 | 15,837 |
| | ----- | ----- | ----- |
| Deposit accounts (3): | | | |
| Money-market deposits | 23,239 | -- | -- |
| Interest-bearing checking deposits | 1,780 | -- | -- |
| Savings deposits | 856 | -- | -- |
| Time deposits | 65,551 | 37,531 | -- |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | | | |
|----------------------------------|-------------|----------|---------|
| Total deposits | 91,426 | 37,531 | -- |
| Federal Home Loan Bank advances | 11,000 | 45,550 | -- |
| Other borrowings | 10,950 | -- | -- |
| Junior subordinated debenture | -- | 5,155 | -- |
| Total rate-sensitive liabilities | 113,376 | 88,236 | -- |
| GAP (repricing differences) | \$ (60,185) | 46,117 | 15,837 |
| Cumulative GAP | \$ (60,185) | (14,068) | 1,769 |
| Cumulative GAP/total assets | (26.67)% | (6.23)% | (0.78)% |

- (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.

17

The following table sets forth loan maturities by type of loan at December 31, 2006 (in thousands):

| | ONE YEAR OR LESS | AFTER ONE BUT WITHIN FIVE YEARS | AFTER FIVE YEARS |
|--------------------------|---------------------|---------------------------------------|---------------------|
| Residential real estate | \$ 1,401 | 4,715 | 64,715 |
| Multi-family real estate | | 160 | 10,615 |
| Commercial real estate | 2,007 | 26 | 66,815 |
| Land and construction | 171 | 9,718 | 21,115 |
| Consumer and other | 227 | -- | -- |
| Total | \$ 3,806 | 14,619 | 163,315 |

The following table sets forth the maturity or repricing of loans by interest type at December 31, 2006 (in thousands):

| ONE YEAR | AFTER ONE BUT WITHIN | AFTER |
|----------|-------------------------|-------|
|----------|-------------------------|-------|

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | OR LESS ----- | FIVE YEARS ----- | FIVE YE ----- |
|------------------------|--------------------|---------------------|------------------|
| Fixed interest rate | \$ 3,224 | 11,640 | 2,7 |
| Variable interest rate | 43,554 | 118,207 | 2,3 |
| | ----- | ----- | ----- |
| Total | \$ 46,778 ===== | 129,847 ===== | 5,1 ===== |

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 its customers. These financial instruments include commitments to extend credit. At December 31, 2006, we had outstanding commitments to originate real estate loans totaling \$11.4 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 to extend credit, is based on management's credit evaluation of the counterparty.

18

The following is a summary of the Bank's contractual obligations, including certain on-balance sheet obligations, at December 31, 2006 (in thousands):

| CONTRACTUAL OBLIGATIONS | TOTAL | PAYMENTS DUE BY PERIOD | | | |
|-------------------------|-------|------------------------|--------------|--------------|-------------------------|
| | | LESS THAN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS |
| | ----- | ----- | ----- | ----- | ----- |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | | | | | |
|---------------------------------|----------|--------|--------|-----|-------|
| Federal Home Loan Bank advances | \$56,550 | 11,000 | 43,550 | -- | -- |
| Junior subordinated debenture | 5,155 | -- | 5,155 | -- | -- |
| Other borrowings | 10,950 | 10,950 | -- | -- | -- |
| Operating leases | 526 | 71 | 154 | 301 | -- |
| Loan commitments | 11,375 | 11,375 | -- | -- | -- |
| | ----- | ----- | ----- | --- | ---- |
| Total | \$84,556 | 33,396 | 48,859 | 301 | -- |
| | ===== | ===== | ===== | === | ===== |

DEPOSITS

Deposits traditionally are the primary source of funds we use in lending, making investments and meeting liquidity demands. We have focused primarily on raising time deposits 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 also promote within our market area. Net deposits increased \$15.4 million and \$16.1 million, for the years ended December 31, 2006 and 2005, respectively.

We use brokered deposits to facilitate mortgage loan fundings in circumstances when larger than anticipated loan volumes occur and there is limited time to fund the additional loan demand through traditional deposit solicitation. In general, brokered deposits can be obtained in one to three days. 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. Brokered deposits amounted to \$8.3 million and \$9.3 million as of December 31, 2006 and December 31, 2005, respectively.

The following table displays the distribution of the Bank's deposits and the average interest rate paid at December 31, 2006 and 2005 (dollars in thousands):

| | AT DECEMBER 31, | | |
|-------------------------------------|-----------------|---------------|--------|
| | 2006 | | |
| | AMOUNT | % OF DEPOSITS | AMOUNT |
| | ----- | ----- | ----- |
| Noninterest-bearing demand deposits | \$ 545 | .42% | \$ 3 |
| Interest-bearing demand deposits | 1,780 | 1.37 | 2,3 |
| Money-market deposits | 23,239 | 17.95 | 3,5 |
| Savings | 856 | .66 | 1,1 |
| | ----- | ----- | ----- |
| Subtotal | 26,420 | 20.40 | 7,4 |
| | ----- | ----- | ----- |
| Time deposits: | | | |
| 2.00% - 2.99% | \$ 501 | .39% | \$ 7,2 |
| 3.00% - 3.99% | 16,578 | 12.80 | 48,4 |
| 4.00% - 4.99% | 47,282 | 36.51 | 47,8 |
| 5.00% - 5.99% | 38,721 | 29.90 | 3,1 |
| 7.00% - 7.99% | -- | -- | -- |
| | ----- | ----- | ----- |
| Total time deposits (1) | 103,082 | 79.60 | 106,6 |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | | | |
|----------------|-----------|---------|---------|
| | ----- | ----- | ----- |
| Total deposits | \$129,502 | 100.00% | \$114,0 |
| | ===== | ===== | ===== |

(1) Included are Individual Retirement Accounts (IRA's) totaling \$7,791,000 and \$7,134,000 at December 31, 2006 and 2005, respectively, all of which are in the form of time deposits.

Deposits of \$100,000 or more, or Jumbo Time Deposits, are generally considered a more unpredictable source of funds.

19

The following table sets forth our maturity distribution of deposits of \$100,000 or more at December 31, 2006 and 2005 (in thousands):

| | AT DECEMBER 31, | |
|--|-----------------|----------|
| | 2006 | 2005 |
| | ----- | ----- |
| Due three months or less | \$ 6,858 | \$ 4,683 |
| Due more than three months to six months | 9,898 | 7,528 |
| More than six months to one year | 8,599 | 8,260 |
| One to five years | 15,544 | 19,463 |
| | ----- | ----- |
| Total | \$40,899 | \$39,934 |
| | ===== | ===== |

ANALYSIS OF RESULTS OF OPERATIONS

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest-earning assets, (i.e., loans and investments) and interest expense paid on interest-bearing liabilities, (i.e., 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. In addition, our net earnings are also affected by the level of nonperforming loans and foreclosed real estate, as well as the level of our noninterest income and our noninterest expenses, such as salaries and employee benefits, occupancy and equipment costs and income taxes.

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,

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | 2006 | | | | 2005 |
|---|--------------------|------------------------------|---------------------------|--------------------|------------------------------|
| | AVERAGE BALANCE | INTEREST AND DIVIDENDS | AVERAGE YIELD/ RATE | AVERAGE BALANCE | INTEREST AND DIVIDENDS |
| INTEREST-EARNING ASSETS: | | | | | |
| Loans | \$ 175,225 | 12,662 | 7.23% | \$ 145,961 | 9,999 |
| Securities | 28,129 | 1,323 | 4.70 | 28,305 | 1,323 |
| Other interest-earning assets (1) | 3,851 | 206 | 5.35 | 4,008 | 206 |
| | ----- | ----- | | ----- | ----- |
| Total interest-earning assets/ interest income | 207,205 | 14,191 | 6.85 | 178,274 | 11,528 |
| | ----- | ----- | | ----- | ----- |
| Cash and due from banks | 311 | | | 211 | |
| Premises and equipment | 4,034 | | | 4,113 | |
| Other assets | 3,019 | | | 4,383 | |
| | ----- | | | ----- | |
| Total assets | \$ 214,569 | | | \$ 186,981 | |
| | ===== | | | ===== | |
| INTEREST-BEARING LIABILITIES: | | | | | |
| Savings, NOW and money- market deposits | 11,974 | 390 | 3.26 | 7,493 | 390 |
| Time deposits | 108,448 | 4,758 | 4.39 | 99,236 | 3,957 |
| Borrowings (4) | 70,614 | 2,915 | 4.13 | 59,050 | 2,915 |
| | ----- | ----- | | ----- | ----- |
| Total interest-bearing liabilities/interest expense | 191,036 | 8,063 | 4.22 | 165,779 | 9,262 |
| | ----- | ----- | | ----- | ----- |
| Noninterest-bearing demand deposits | 747 | | | 953 | |
| Other liabilities | 3,214 | | | 2,640 | |
| Stockholders' equity | 19,572 | | | 17,609 | |
| | ----- | | | ----- | |
| Total liabilities and stockholders' equity | \$ 214,569 | | | \$ 186,981 | |
| | ===== | | | ===== | |
| Net interest income | | \$ 6,128 | | | \$ 5,766 |
| | | ===== | | | ===== |
| Interest rate spread (2) | | | 2.63% | | |
| | | | ===== | | |
| Net interest margin (3) | | | 2.96% | | |
| | | | ===== | | |
| Ratio of average interest-earning assets to average interest- bearing liabilities | | | 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.

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

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):

| | YEAR ENDED DECEMBER 31, 2006 VERSUS 2005 INCREASES (DECREASES) DUE TO CHANGE I | | |
|-------------------------------|--|--------|-----------------|
| | RATE | VOLUME | RATE/ VOLUME |
| Interest income: | | | |
| Loans | \$ 620 | 1,990 | 124 |
| Securities | 71 | (8) | -- |
| Other interest-earning assets | 70 | (7) | (3) |
| | ----- | ----- | ----- |
| Total interest income | 761 | 1,975 | 121 |
| | ----- | ----- | ----- |
| Interest expense: | | | |
| Savings, NOW and money-market | 164 | 48 | 98 |
| Time deposits | 734 | 336 | 68 |
| Borrowings | 297 | 418 | 59 |
| | ----- | ----- | ----- |
| Total interest expense | 1,195 | 802 | 225 |
| | ----- | ----- | ----- |
| Net interest income | \$ (434) | 1,173 | (104) |
| | ===== | ===== | ===== |

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

GENERAL. Net earnings for the year ended December 31, 2006, were \$1,834,000 or \$.65 per basic and \$.63 per diluted share compared to net earnings of \$1,601,000 or \$.57 per basic and \$.56 per diluted share for the year ended December 31, 2005. This increase in the Company's net earnings was primarily due to an increase in net interest income which was partially offset by an increase in noninterest expenses, all of which were due to the overall growth of the Company.

INTEREST INCOME. Interest income increased to \$14.2 million for the year ended December 31, 2006 from \$11.3 million for the year ended December 31, 2005. Interest income on loans increased to \$12.7 million due primarily to an increase in the average loan portfolio balance for the year ended December 31, 2006, and an increase in the average yield earned on the portfolio from 6.80% for the year ended December 31, 2005 to 7.23% for the year ended December 31, 2006. Interest on securities increased by \$63,000 primarily due to an increase in the average yield during the year ended December 31, 2006.

INTEREST EXPENSE. Interest expense on deposit accounts increased to

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

\$5.1 million for the year ended December 31, 2006, from \$3.7 million for the year ended December 31, 2005. Interest expense increased primarily because of an increase in the average balance of deposits and the average rate paid during 2006. Interest expense on borrowings increased to \$2.9 million for the year ended December 31, 2006 from \$2.1 million for the year ended December 31, 2005 primarily due to an increase in the average balance of borrowings.

PROVISION FOR LOAN LOSSES. The provision for loan losses is charged to earnings to bring the total allowance to a level deemed appropriate by management and is based upon historical experience, the volume and type of lending we conduct, industry standards, the amount of nonperforming loans, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectibility of our loan portfolio. The provision for the year ended December 31, 2006, was \$265,000 compared to \$149,000 for the same period in 2005. Management believes the balance in the allowance for loan losses of \$974,000 at December 31, 2006, is adequate.

21

NONINTEREST INCOME. Total noninterest income decreased to \$628,000 for the year ended December 31, 2006, from \$635,000 for the year ended December 31, 2005 primarily as a result of a \$272,000 decrease in prepayment fees collected, partially offset by a \$202,000 increase in gains recognized on the payoff of Federal Home Loan Bank advances and a litigation settlement of \$93,000 in 2006.

NONINTEREST EXPENSES. Total noninterest expenses increased to \$3.6 million for the year ended December 31, 2006 from \$3.4 million for the year ended December 31, 2005, primarily due to a \$318,000 increase in salaries and employee benefits and a \$85,000 increase in professional fees, all due to the continued growth of the Company. The increase was partially offset by a \$243,000 decrease in the provision for losses on foreclosed assets.

INCOME TAXES. Income taxes for the year ended December 31, 2006, were \$1,083,000 (an effective rate of 37.1%) compared to income taxes of \$982,000 (an effective rate of 38.0%) for the year ended December 31, 2005.

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, 2006 and 2005 are as follows (in thousands, except share amounts):

| 2006 | | | | 2005 | |
|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| FOURTH QUARTER | THIRD QUARTER | SECOND QUARTER | FIRST QUARTER | FOURTH QUARTER | THIRD QUARTER |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | | | | | | |
|--|----------|-------|-------|-------|-------|-------|
| Interest income | \$ 3,828 | 3,621 | 3,400 | 3,342 | 3,231 | 2,891 |
| Interest expense | 2,258 | 2,104 | 1,881 | 1,820 | 1,693 | 1,528 |
| Net interest income | 1,570 | 1,517 | 1,519 | 1,522 | 1,538 | 1,363 |
| Provision (credit) for loan losses | 120 | 12 | 27 | 106 | 44 | (40) |
| Net interest income after provision for loan losses | 1,450 | 1,505 | 1,492 | 1,416 | 1,494 | 1,403 |
| Noninterest income | 61 | 110 | 181 | 276 | (7) | 163 |
| Noninterest expense | 907 | 891 | 891 | 885 | 796 | 918 |
| Earnings before income taxes | 604 | 724 | 782 | 807 | 691 | 648 |
| Net earnings | 374 | 453 | 488 | 519 | 428 | 401 |
| Basic earnings per common share | .14 | .16 | .17 | .18 | .15 | .14 |
| Diluted earnings per common share | .13 | .15 | .16 | .18 | .14 | .14 |

22

ITEM 7. FINANCIAL STATEMENTS

The financial statements of the Company as of and for the years ended December 31, 2006 and 2005 are set forth in this Form 10-KSB as Exhibit 99.1 and contain the following information:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets, December 31, 2006 and 2005
Consolidated Statements of Earnings for the Years Ended
December 31, 2006 and 2005
Consolidated Statements of Stockholders' Equity for the Years Ended
December 31, 2006 and 2005
Consolidated Statements of Cash Flows for the Years Ended
December 31, 2006 and 2005
Notes to Consolidated Financial Statements, December 31, 2006 and 2005
and for the Years Then Ended

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A. CONTROLS AND PROCEDURES

(A) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive and principal accounting officers of the Company concluded that the Company's disclosure controls and

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

procedures were adequate.

(B) CHANGES IN INTERNAL CONTROLS

The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by its chief executive and principal accounting officers.

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-KSB as Exhibit 14.1.

The information contained under the sections captioned "Nominees" and "Executive Officers Who Are Not Directors" under "Proposal 1: Election of Directors and Management Information", "Information About the Board and its Committees", 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 26, 2007 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" under "Information About the Board and Its Committees" and "Information Regarding Executive Officer Compensation" in the Proxy Statement, is incorporated herein by reference.

23

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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.

The Company has only two compensation plans under which shares of its common stock are issuable. These two plans are its Stock Option Plan, previously approved by our stockholders, and its Non-Employee Directors' Fee Compensation and Stock Purchase Plan, which was not approved by our shareholders. The following table sets forth information as of December 31, 2006 with respect to the number of shares of our common stock issuable pursuant to these two plans.

EQUITY COMPENSATION PLAN INFORMATION

| (A) | (B) |
|----------------------|--|
| NUMBER OF SECURITIES | WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| PLAN CATEGORY ----- | TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS WARRANTS AND RIGHTS ----- | OPTIONS, WARRANTS AND RIGHTS ----- |
|---|--|---|
| Equity compensation plans approved by security holders | 467,250 | \$ 8.04 |
| Equity compensation plans not approved by security holders | -- ----- | ----- |
| Total | 467,250 ===== | \$ 8.04 ===== |

(1) Shares purchased by non-employee directors with fees for attendance at Board of Director meetings under the Non-Employee Directors' Fee Compensation and Stock Purchase Plan. Annual accumulated fees are used to purchase stock after the end of each year at the closing price of the stock on the last business day of each quarter in which the fees are earned. For the year ended December 31, 2006, the Company sold 1,277 shares of stock at an average price of \$10.50-\$12.75 per share to its outside directors under the Plan. The shares are exempt from registration under Section 4(2) of the Securities Act of 1933 which contains an exemption for transactions by an issuer not involving any public offering.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information contained under the sections captioned "Transactions with Related Persons" and "Information About the Board and its Committees" in the Proxy Statement is incorporated herein by reference.

24

ITEM 13. EXHIBITS

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

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| ** | 2.1 Agreement and Plan of Reorganization between OptimumBank and OptimumBank Holdings, Inc. dated March 23, 2004 |
| *** | 3.1 Articles of Incorporation |
| *** | 3.3 Bylaws |
| **** | 4.1 Form of stock certificate |
| ***** | 10.1 Amended and Restated Stock Option Plan |

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

- * 10.2 Non-employee Directors' Fee Compensation and Stock Purchase Plan
- * 10.3 Agreement between OptimumBank, Albert J. Finch and Richard L. Browdy dated June 14, 2002
- ***** 14.1 Code of Ethics for Chief Executive Officer and Senior Financial Officers
 - 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 underss.906 of the Sarbanes-Oxley Act of 2002
 - 32.2 Certification of Chief Financial Officer underss.906 of the Sarbanes-Oxley Act of 2002
 - 99.1 Consolidated Financial Statements of OptimumBank Holdings, Inc. and Subsidiary and Report of Independent Registered Public Accounting Firm

(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.

25

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fort Lauderdale, State of Florida, on the 30th day of March 2007.

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 30, 2007.

SIGNATURE

TITLE

/s/ Albert J. Finch

Director

 Albert J. Finch

Edgar Filing: OptimumBank Holdings, Inc. - Form 10KSB

| | |
|---|----------|
| /s/ Richard L. Browdy ----- Richard L. Browdy | Director |
| /s/ Michael Bedzow ----- Michael Bedzow | Director |
| /s/ Sam Borek ----- Sam Borek | Director |
| /s/ Irving P. Cohen ----- Irving P. Cohen | Director |
| /s/Gordon Deckelbaum ----- Gordon Deckelbaum | Director |
| /s/H. David Krinsky ----- H. David Krinsky | Director |
| /s/ Wendy Mitchler ----- Wendy Mitchler | Director |
| ----- Larry Willis | Director |

26

EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION OF EXHIBIT |
|-------------|--|
| ----- | ----- |
| 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 underss.906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer underss.906 of the Sarbanes-Oxley Act of 2002 |
| 99.1 | Consolidated Financial Statements of OptimumBank Holdings, Inc. and Subsidiary and Report of Independent Registered Public Accounting Firm |