BofI Holding, Inc.
Form 10-Q
February 04, 2009
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from _________ to _________

Commission file number 000-51201

BofI HOLDING, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0867444**
(State or other jurisdiction of incorporation or organization)	***(I.R.S. Employer Identification No.)***

12777 High Bluff Drive, Suite 100, San Diego, CA 92130

(Address of principal executive offices and zip code)

(858) 350-6200

(Registrant s telephone number and area code)

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

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

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

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

The number of shares outstanding of the registrant s common stock on the last practicable date: 8,032,896 shares of common stock as of January 30, 2009.

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BofI HOLDING, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BofI HOLDING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Unaudited)

	December 31, 2008	June 30, 2008
ASSETS		
Cash and due from banks	5,364	4,214
Federal funds sold	9,413	12,050
Total cash and cash equivalents	14,777	16,264
Time deposits in financial institutions	99	1,980
Investment securities:		
Trading	7,180	
Available for sale	184,359	209,119
Held to maturity	320,920	300,895
Stock of the Federal Home Loan Bank, at cost	18,848	19,395
Loans net of allowance for loan losses of $3,374 in December 2008, $2,710 in June 2008	641,475	631,413
Loans held for sale	2,917	
Other assets	29,876	15,179
TOTAL	$ 1,220,451	$ 1,194,245
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 3,535	$ 5,509
Interest bearing	628,958	565,195
Total deposits	632,493	570,704
Securities sold under agreements to repurchase	130,000	130,000
Advances from the Federal Home Loan Bank	321,977	398,966
Federal Reserve Discount Window borrowings and junior subordinated debentures	50,155	5,155
Other liabilities	4,481	6,338
Total liabilities	1,139,106	1,111,163
STOCKHOLDERS EQUITY:		
Preferred stock 1,000,000 shares authorized;		
Series A-$10,000 stated value; 515 (Dec 2008) 515 (Jun 2008) shares issued and outstanding	5,063	5,063
Series B-$1,000 stated value; 4,790 (Dec 2008) 3,750 (Jun 2008) shares issued and outstanding	4,767	3,750
Common stock $.01 par value; 25,000,000 shares authorized; 8,637,373 shares issued and 8,032,896 shares outstanding (Dec 2008); 8,627,840 shares issued and 8,299,563 shares outstanding (June 2008)	86	86
Additional paid-in capital	60,986	60,684
Accumulated other comprehensive income, net of tax	405	1,017
Retained earnings	13,513	14,975

Treasury stock	(3,475)	(2,493)
Total stockholders equity	81,345	83,082
TOTAL	$ 1,220,451	$ 1,194,245

See condensed notes to consolidated financial statements.

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BofI HOLDING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except earnings per share)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$ 10,454	$ 7,727	$ 20,234	$ 15,221
Investments	9,053	7,244	18,450	13,372
Total interest and dividend income	19,507	14,971	38,684	28,593
INTEREST EXPENSE:				
Deposits	6,268	7,546	12,595	14,496
Advances from the Federal Home Loan Bank	2,928	2,594	6,482	5,118
Other borrowings	1,542	1,401	3,026	2,587
Total interest expense	10,738	11,541	22,103	22,201
Net interest income	8,769	3,430	16,581	6,392
Provision for loan losses	1,125	264	1,630	269
Net interest income, after provision for loan losses	7,644	3,166	14,951	6,123
NON-INTEREST INCOME:				
Prepayment penalty fee income	3	45	45	185
Mortgage banking income	54		55	2
Gain (loss) on investment securities	(168)	206	(8,241)	426
Banking service fees and other income	125	82	231	168
Total non-interest income	14	333	(7,910)	781
NON-INTEREST EXPENSE:				
Salaries, employee benefits and stock-based compensation	1,311	1,358	2,574	2,379
Professional services	505	154	699	249
Occupancy and equipment	118	91	217	185
Data processing and internet	179	154	367	307
Advertising and promotional	159	174	252	475
Depreciation and amortization	41	30	82	55
Other general and administrative	695	449	1,294	910
Total non-interest expense	3,008	2,410	5,485	4,560
INCOME BEFORE INCOME TAXES	4,650	1,089	1,556	2,344
INCOME TAXES	1,889	438	612	946
NET INCOME	$ 2,761	$ 651	$ 944	$ 1,398

NET INCOME ATTRIBUTABLE TO COMMON STOCK	$ 2,588	$ 574	$ 600	$ 1,244
COMPREHENSIVE INCOME	$ 3,103	$ 1,395	$ 332	$ 3,938
Basic earnings per share	$ 0.32	$ 0.07	$ 0.07	$ 0.15
Diluted earnings per share	$ 0.32	$ 0.07	$ 0.07	$ 0.15

See condensed notes to consolidated financial statements.

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BofI HOLDING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Convertible Preferred Stock		Common Stock Number of Shares						Accumulated Other Comprehensive Income (Loss), Net of Tax		
	Shares	Amount	Issued	Treasury	Outstanding	Amount	Additional Paid in Capital	Retained Earnings		Treasury Stock	Total
BALANCE July 1, 2008	4,265	$ 8,813	8,627,840	(328,277)	8,299,563	$ 86	$ 60,684	$ 14,975	$ 1,017	$ (2,493)	$ 83,082
Comprehensive income:											
Net income								944			944
Net unrealized loss from investment securities net of income tax benefit and reclassifications									(612)		(612)
Total comprehensive income											$ 332
Cash dividends on convertible preferred stock								(344)			(344)
Issuance of convertible preferred stock	1,040	1,017									1,017
Purchase of treasury stock				(276,200)	(276,200)					(982)	(982)
Cumulative effect of the adoption of SFAS 159								(2,062)			(2,062)
Stock-based compensation expense							325				325
Restricted stock issuance			9,533		9,533						
Stock option exercises and tax effects of equity compensation							(23)				(23)
BALANCE December 31, 2008	5,305	$ 9,830	8,637,373	(604,477)	8,032,896	$ 86	$ 60,986	$ 13,513	$ 405	$ (3,475)	$ 81,345

See condensed notes to consolidated financial statements.

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BofI HOLDING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended December 31, 2008	Six Months Ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 944	$ 1,398
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization (accretion) of premiums (discounts) on securities	(6,152)	547
Amortization (accretion) of premiums (discounts) and deferred loan fees	(417)	1,168
Amortization of borrowing costs	11	38
Stock-based compensation expense	325	266
Net loss (gain) on investment securities	7,896	(426)
Valuation of financial instruments carried at fair value	345	
Provision for loan losses	1,630	269
Deferred income taxes	(584)	124
Origination of loans held for sale	(6,726)	(516)
Net gain on sales of loans held for sale	(55)	(2)
Proceeds from sales of loans held for sale	3,864	518
Depreciation and amortization	82	55
Stock dividends from the Federal Home Loan Bank	(464)	(329)
Net changes in assets and liabilities which provide (use) cash:		
Accrued interest receivable	520	(148)
Other assets	(8,729)	(391)
Accrued interest payable	(41)	(143)
Accounts payable and accrued liabilities	(1,287)	258
Net cash provided by (used in) operating activities	(8,838)	2,686
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities and time deposits	(55,654)	(231,030)
Proceeds from sale of available for sale securities	1,170	75,576
Repayments of investments and time deposits	47,306	81,482
Purchases of stock of Federal Home Loan Bank	(2,068)	
Proceeds from redemption of stock of Federal Home Loan Bank	3,079	219
Origination of loans	(27,842)	(49,730)
Purchases of loans, net of discounts and premiums	(49,625)	(30,602)
Principal repayments on loans	61,507	69,456
Purchases of furniture, equipment and software	(75)	(146)
Net cash used in investing activities	(22,202)	(84,775)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	61,789	52,219
Proceeds from Federal Home Loan Bank advances	30,000	24,000
Repayments of Federal Home Loan Bank advances	(107,000)	(23,900)
Proceeds from repurchase agreements		35,000
Proceeds from borrowing at Fed Discount Window	45,000	

Purchases of treasury stock	(982)	
Proceeds from exercise of common stock options		84
Proceeds from issuance of preferred stock Series B	1,017	
Tax benefit from exercise of common stock options	(23)	25
Cash dividends paid on convertible preferred stock	(248)	(154)
Net cash provided by financing activities	29,553	87,274
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,487)	5,185
CASH AND CASH EQUIVALENTS Beginning of year	16,264	39,708
CASH AND CASH EQUIVALENTS End of period	$ 14,777	$ 44,893
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	$ 22,134	$ 22,305
Income taxes paid	$ 4,124	$ 975
Transfers to real estate owned	$ 4,685	$
Adoption of fair value - securities transferred from HTM to trading	$ 11,055	$
Preferred stock dividends - declared but not paid	$ 96	$

See condensed notes to consolidated financial statements.

BofI HOLDING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007

(Dollars in thousands, except per share data)

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of BofI Holding, Inc. and its wholly owned subsidiary, Bank of Internet USA (the Bank and collectively with BofI Holding, the Company). All significant intercompany balances have been eliminated in consolidation.

The accompanying interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (GAAP), are unaudited and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the six months ended December 31, 2008 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended June 30, 2008 included in our Annual Report on Form 10-K.

Certain reclassifications have been made to the prior-period financial statements to conform to the current period presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

Investment Securities Currently, we classify investment securities as either trading, available-for-sale or held to maturity. Trading securities are those securities for which we have elected fair value accounting in accordance with SFAS No. 159, see Note 7. Trading securities are recorded at fair value with changes in fair value recorded in earnings each period. Securities available for sale are reported at estimated fair value, with unrealized gains and losses, net of the related tax effects, excluded from operations and reported as a separate component of accumulated other comprehensive income or loss. The fair values of securities traded in active markets are obtained from market quotes. If quoted prices in active markets are not available, we determine the fair value from our internal pricing models. Securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Amortization of purchase premiums and accretion of discounts on securities are recorded as yield adjustments on such securities using the effective interest method. The specific identification method is used for purposes of determining cost in computing realized gains and losses on investment securities sold.

At each reporting date, we monitor our available-for-sale and held to maturity securities for other-than-temporary impairment. Other-than-temporary impairment losses are recognized in noninterest income with a corresponding reduction in the carrying value of the investment.

During the quarter ended December 31, 2008, the Bank transferred certain investment securities purchased at discount prices into the Bank of Internet Resecuritization Trust (BIRT) controlled by its parent, BofI Holding, Inc. The Bank received from BIRT the equivalent book value of notes restructured from the cash flows of the investment securities transferred. The purpose of the transfer was to provide the Bank with investment securities rated AAA or AA by two national rating agencies reflecting the additional credit support created by discount purchase prices. There was no gain or loss recognized upon the transfer as the Company retains all ownership rights and risks related to the investment securities. The BIRT and related securities are included in the Company s consolidated financial statements.

Allowance for Loan Losses The allowance for loan losses is maintained at a level estimated to provide for probable incurred losses in the loan portfolio. Management determines the adequacy of the allowance based on reviews of individual loans and pools of loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. This evaluation is inherently subjective and requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by the provision for loan losses, which is charged against current period operating results and recoveries of loans previously charged-off. The allowance is decreased by the amount of charge-offs of loans deemed uncollectible.

Under the allowance for loan loss policy, impairment calculations are determined based on general portfolio data for general reserves and loan level data for specific reserves. Specific loans are evaluated for impairment and are generally classified as nonperforming or in foreclosure when they are 90 days or more delinquent. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate or the fair value of the collateral if repayment of the loan is expected primarily from the sale of collateral.

General loan loss reserves are calculated by grouping each loan by collateral type and by grouping the loan-to-value ratios of each loan within the collateral type. An estimated allowance rate for each loan-to-value group within each type of loan is multiplied by the total principal amount in the group to calculate the required general reserve attributable to that group. Management uses an allowance rate that provides a larger loss allowance for loans with greater loan-to-value ratios. Specific reserves are calculated when an internal asset review of a loan identifies a significant adverse change in the financial position of the borrower or the value of the collateral. The specific reserve is based on discounted cash flows, observable market prices or the estimated value of underlying collateral.

New Accounting Pronouncements In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 on July 1, 2008, see footnote 7 for further information.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS No. 159). This Statement allows entities to voluntarily choose, at specified election dates, to measure any financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. The Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. In October 2008, the FASB issued Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. This FSP clarifies the application of SFAS No. 157 in a market that is not active and provides example disclosures for use in such instances. It is effective upon issuance. The Company adopted SFAS No. 159 on July 1, 2008 and FSP 157-3 upon issuance, see footnote 7 for further information.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, an income tax position will be recognized if it is more likely than not that it will be sustained upon IRS examination, based upon its technical merits. Once that status is met, the amount recorded will be the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was effective as of the fiscal year beginning July 1, 2007.

The Company adopted FIN 48 effective July 1, 2007. There was no cumulative effect of applying the provisions of FIN 48 and there was no material effect on the Company s provision for income taxes for the six months ended December 31, 2008. The adoption of FIN 48 had no effect on our financial condition or results of operations. The Company is subject to federal income tax and income tax of the state of California as well as various other states. The Company s federal income tax returns for the years ended June 30, 2005, 2006, 2007, and 2008 and its California state tax returns for the years ended June 30, 2005, 2006, 2007, and 2008 are open to audit under the statutes of limitations by the Internal Revenue Service and California Franchise Tax Board. The Company records interest and penalties related to uncertain tax positions as part of income tax expense. There was no penalty or interest expense recorded for the quarter or the six months ended December 31, 2008 or 2007. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The Company does not expect the adoption of this EITF to have a material impact on the Company s consolidated financial position or results of operations.

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3. INVESTMENT SECURITIES

The following table provides the cost and fair value for the major categories of securities available for sale and held to maturity. Securities reported at fair value by the election of the Company are classified as trading as discussed in footnote 7.

	December 31, 2008				
	Available for Sale		Held to Maturity		Trading
	Amortized Cost	Fair Value	Carrying Amount	Fair Value	Fair Value
Mortgage-backed securities:					
Federal agencies	$ 183,679	$ 184,359	$ 20,271	$ 20,423	$
Non-agency (1)			295,660	293,347	
Total mortgage-backed securities	183,679	184,359	315,931	313,770	
Other debt securities:					
Federal agencies			4,989	5,037	
Non-agency (2)					7,180
Total other debt securities			4,989	5,037	7,180
Total	$ 183,679	$ 184,359	$ 320,920	$ 318,807	$ 7,180

(1) Non-agency mortgage-backed securities are primarily AAA-rated bonds collateralized by 1-4 family residential first mortgages.

(2) Non-agency debt securities are trust preferred collateralized debt.

The net unrealized gain of $680 on available for sale securities at December 31, 2008 included gross unrealized gains of $1,900 and gross unrealized losses of $1,220. The net unrealized loss of $2,113 on held to maturity securities at December 31, 2008 included gross unrealized gains of $13,326 and gross unrealized losses of $15,439. When available, fair values for investment securities are obtained from quoted prices on active markets otherwise fair values are determined by the Company in accordance with GAAP as discussed in footnote 7.

The Company monitors securities in its held to maturity and available for sale investment portfolios for other-than-temporary impairment. Impairment may result from factors including credit deterioration and changes in market rates relative to the interest rate of the instrument. The Company considers many factors in determining whether impairment is other than temporary, including but not limited to the length of time the security has had a fair value less than the cost basis, the severity of the unrealized loss, the Company s intent and ability to hold the security for a period of time sufficient for a recovery in value, issuer specific factors such as the issuer s financial condition, external credit ratings and general market conditions.

Recently liquidity and economic uncertainty have increased the volatility of market pricing for mortgage-backed securities and collateralized debt securities. Although the fair value will fluctuate, the majority of our investment portfolio consists of mortgage-backed securities from government agencies and non-agency AAA-rated senior mortgage-backed securities. If held to maturity, the contractual principal and interest payments of the securities are expected to be received in full recovery of book value. No loss of book value is expected over the lives of the securities and the Company has the ability and intent to hold these securities until they mature or for a period of time sufficient to allow for a recovery in the fair value. The determination of whether a decline in market value is other-than-temporary is necessarily a matter of subjective judgment.

4. STOCK-BASED COMPENSATION

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

The Company has two stock incentive plans, the 2004 Stock Incentive Plan (2004 Plan) and the 1999 Stock Option Plan (1999 Plan), which provide for the granting of non-qualified and incentive stock options, restricted stock and restricted stock units, stock appreciation rights and other awards to employees, directors and consultants. The Company terminated the 1999 Plan in November 2007 and no new option awards will be made under the 1999 Plan.

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Stock Options The Company s income before income taxes for the quarters ended December 31, 2008 and 2007 included stock option compensation expense of $74 and $97, with a total income tax benefit of $30 and $39, respectively. For the six months ended December 31, 2008 and 2007 stock option compensation expense was $150 and $194, with a total income tax benefit of $59 and $78, respectively. At December 31, 2008, unrecognized compensation expense related to non-vested stock option grants aggregated $163 which is expected to be recognized in future periods as follows:

		Stock Option Compensation Expense
Remainder of fiscal:		
2009		89
2010		67
2011		7
2012		
Total	$	163

A summary of stock option activity under the Plans during the period July 1, 2007 to December 31, 2008 is presented below:

	Number of Shares		Average Exercise Price Per Share
Outstanding July 1, 2007	936,994	$	7.05
Exercised	(20,000)	$	4.19
Cancelled	(10,750)	$	9.32
Outstanding June 30, 2008	906,244	$	7.09
Exercised		$	0.00
Cancelled	(11,000)	$	8.81
Outstanding December 31, 2008	895,244	$	7.07
Options exercisable June 30, 2008	804,496	$	6.96
Options exercisable December 31, 2008	817,440	$	6.98

The following table summarizes information as of December 31, 2008 concerning currently outstanding and exercisable options:

	Options Outstanding		Options Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Number Exercisable	Exercise Price
$ 4.19	360,583	1.1	360,583	$ 4.19
$ 6.76	20,000	7.8	9,583	$ 6.76
$ 7.35	130,600	7.6	90,921	$ 7.35
$ 8.50	15,000	6.9	14,167	$ 8.50
$ 9.20	7,500	6.6	7,500	$ 9.20
$ 9.50	179,000	6.6	157,854	$ 9.50
$ 10.00	181,561	4.4	175,832	$ 10.00

$ 11.00	1,000	3.5	1,000	$ 11.00
$ 7.07	895,244	4.1	817,440	$ 6.98

The aggregate intrinsic value of options outstanding and options exercisable under the Plans at December 31, 2008 and 2007 were $202 and $202 respectively.

Restricted Stock and Restricted Stock Units Under the Company s 2004 Plan, employees and directors are eligible to receive grants of restricted stock and restricted stock units. In accordance with SFAS 123R, the fair value of restricted stock and restricted stock units is equal to the closing sale price of the Company s common stock on the date of grant.

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During the quarters ended December 31, 2008 and September 30, 2008, the Company s Board of Directors granted 3,650 and 37,685 restricted stock units respectively, to employees and directors. All restricted stock unit awards granted during these quarters vest over three years, one-third on each anniversary date.

The Company s income before income taxes for the quarters ended December 31, 2008 and 2007 included restricted stock compensation expense of $88 and $48, with a total income tax benefit of $36 and $19, respectively. For the six months ended December 31, 2008 and 2007 restricted stock compensation expense was $175 and $72, with a total income tax benefit of $69 and $29, respectively. The Company recognizes compensation expense based upon the grant-date fair value divided by the vesting and the service period between each vesting date. At December 31, 2008, unrecognized compensation expense related to non-vested grants aggregated $823 and is expected to be recognized in future periods as follows:

	Restricted Stock Compensation Expense
Remainder of fiscal:	
2009	$ 191
2010	340
2011	279
2012	13
Total	$ 823

The following table presents the status and changes in non-vested restricted stock and restricted stock unit grants from July 1, 2007 through December 31, 2008:

	Restricted Stock Shares and Units	Weighted-Average Grant-Date Fair Value
Non-vested balance at July 1, 2007	27,769	$ 8.25
Granted	131,253	$ 6.98
Vested	(31,951)	$ 7.52
Non-vested balance at June 30, 2008	127,071	$ 7.13
Granted	41,335	$ 5.86
Vested	(20,735)	$ 7.96
Non-vested balance at December 31, 2008	147,671	$ 6.66

2004 Employee Stock Purchase Plan In October 2004, the Company s Board of Directors and stockholders approved the 2004 Employee Stock Purchase Plan, which is intended to qualify as an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code. An aggregate of 500,000 shares of the Company s common stock has been reserved for issuance and will be available for purchase under the 2004 Employee Stock Purchase Plan. At December 31, 2008, there have been no shares issued under the 2004 Employee Stock Purchase Plan.

5. EARNINGS PER SHARE

Information used to calculate earnings per share was as follows:

	Three Months Ended December 31,	Six Months Ended December 31,

	2008	2007	2008	2007
Net income	$ 2,761	$ 651	$ 944	$ 1,398
Dividends on preferred stock	173	77	344	154
Net income attributable to common shares	$ 2,588	$ 574	$ 600	$ 1,244
Weighted-average shares:				
Basic weighted-average number of common shares outstanding and average common shares earned on restricted stock awards	8,183,569	8,254,065	8,231,517	8,251,112
Dilutive effect of stock options	22,515	120,315	65,194	123,357
Dilutive weighted-average number of common shares outstanding	8,206,084	8,374,380	8,296,711	8,374,469
Net income per common share:				
Basic	$ 0.32	$ 0.07	$ 0.07	$ 0.15
Diluted	$ 0.32	$ 0.07	$ 0.07	$ 0.15

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Options and stock grants of 686,270 and 684,679 shares for the three months and 700,773 and 686,111 shares for the six months ended December 31, 2008 and 2007, respectively, were not included in determining diluted earnings per share, as they were anti-dilutive.

6. COMMITMENTS AND CONTINGENCIES

Credit-Related Financial Instruments The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. At December 31, 2008, the Company had $14.3 million in commitments to originate or purchase loans and $11.0 million in commitments to sell loans.

7. FAIR VALUE MEASUREMENTS

As discussed in Note 2, Significant Accounting Policies to the condensed consolidated financial statements, effective July 1, 2008, the Company adopted SFAS 157 and upon issuance, adopted FSP 157-3, which provides a framework for measuring fair value under generally accepted accounting principles.

The Company also adopted SFAS 159 on July 1, 2008. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company elected to adopt the fair value option for trust preferred collateralized debt on the adoption date. SFAS 159 requires that the difference between the carrying value before election of the fair value option and the fair value of these instruments be recorded as an adjustment to beginning retained earnings in the period of adoption.

Management believes the adoption of SFAS No. 159 for certain financial instruments will provide the users of its financial statements with transparent and relevant financial information that provides better insight into the Company s risk management activities. Application of SFAS No. 159 and its disclosure requirements for financial instruments elected to be carried at fair value expands the transparency of risk management activities and eliminates or reduces the obstacles presented by complex accounting standards related to hedging investment securities and other financial instruments.

The following table summarizes the impact of adopting the fair value option for certain financial instruments on July 1, 2008. Amounts shown represent the carrying value of the affected instruments before and after the changes in accounting resulting from the adoption SFAS 159.

(in thousands)	Ending Balance as of June 30, 2008 (Prior to Adoption)	Adoption Net Gain (Loss)	Opening Balance as of July 01, 2008 (After Adoption)
Impact of Electing the Fair Value Option under SFAS 159:			
Investment securities trust preferred collateralized debt	$ 11,055	$ (3,504)	$ 7,551
Cumulative-effect Adjustments (pre-tax)	$ 11,055	(3,504)	$ 7,551
Tax Impact		1,442	
Cumulative-effect Adjustment decrease to Retained Earnings, net of tax		$ (2,062)	

Fair Value Measurement

The Company uses fair value measurements to record fair value adjustments to certain financial instruments. Trading securities and securities available for sale are financial instruments recorded at fair value on a recurring basis. The Company may be required to record at fair value other financial assets on a nonrecurring basis such as loans held for sale and impaired loans. These nonrecurring fair value adjustments involve the application of lower of cost or market accounting.

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

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as certain U.S. treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include securities with quoted prices that are traded less frequently than exchange-traded instruments, securities and derivative contracts and financial liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models such as discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following table sets forth the Company s financial assets and liabilities measured at fair value on a recurring basis at December 31, 2008. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair value as of December 31, 2008
Assets:				
Securities trading			$ 7,180	$ 7,180
Securities available for sale	$ 184,359	$	$	$ 184,359

The following table presents additional information about assets measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

(in thousands)	Investment securities trading
Assets	
Beginning Balance July 1, 2008	$ 7,551
Total gains/(losses) (realized/unrealized):	
Included in earnings	(345)
Included in other comprehensive income	
Purchases, issuances, and settlements	(26)
Transfers into Level 3	
Ending balance December 31, 2008	$ 7,180

Impaired loans measured for impairment using the fair value of the collateral for collateral-dependent loans has a carrying amount of $1,278, after a write-off of $180, resulting in an additional provision for loan losses of $180 during the six months ended December 31, 2008.

Determination of Fair Value

Securities trading

Trading securities are recorded at fair value. Recent liquidity and economic uncertainty have significantly disrupted the market for collateralized debt securities. As quoted market prices are not available, the fair values for these securities are determined by the Company utilizing internally developed pricing models. The Company s process considers actual and forecasted default rates, and other individual characteristics of the specific assets comprising the securities as well as the structural subordination and overcollateralization characteristics of the securities to estimate future cash flows and select discount rates to calculate each security s fair value. Due to the current market conditions as well as the limited trading activity of these securities, the market value of these securities is highly sensitive to assumption changes.

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Securities available for sale

Available for sale securities are recorded at fair value and consist of mortgage-backed securities U.S. agency. Fair value is generally based on quoted market prices. If these market prices are not available, fair values are estimated based on dealer quotes, pricing models, discounted cash flow methodologies. At December 31, 2008 the majority of these instruments were valued using market prices.

Impaired Loans

The fair value of impaired loans with specific write-offs is generally based on recent real estate appraisals or other third-party valuations and analysis of cash flows. These appraisals and analyses may utilize a single valuation approach or a combination of approaches including comparable sales and income approaches. Adjustments are routinely made in the process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification for the inputs for determining fair value.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information about the results of operations, financial condition, liquidity, off balance sheet items, contractual obligations and capital resources of BofI Holding, Inc. and subsidiary. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our financial information in our Annual Report on Form 10-K and the accompanying interim unaudited condensed consolidated financial statements and notes thereto.

Certain matters discussed in this report may constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and as such, may involve risks and uncertainties. These forward-looking statements can be identified by the use of terminology such as estimate, project, anticipate, expect, intends, believe, will, or the negative thereof or other thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance. Forward-looking statements are inherently unreliable and actual results may vary. Factors that could cause actual results to differ from these forward-looking statements include economic conditions, changes in the interest rate environment, changes in the competitive marketplace, risks associated with credit quality and other risk factors summarized in Part II, Item 1A under the heading Risk Factors in this report, and discussed in greater detail under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Performance in our Annual Report on Form 10-K for the year ended June 30, 2008, which has been filed with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All written and oral forward-looking statements made in connection with this report, which are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing information.

General

Our company, BofI Holding, Inc., is the holding company for Bank of Internet USA, a consumer-focused, nationwide savings bank operating primarily over the Internet. We offer loans and deposits in all 50 states to our customers directly through our websites, including www.BankofInternet.com, www.BofI.com, and www.Apartmentbank.com. We are a unitary savings and loan holding company and, along with Bank of Internet USA, are subject to primary federal regulation by the Office of Thrift Supervision, or OTS .

Using online applications on our websites, our customers apply for deposit products, including time deposits, interest-bearing demand accounts (including interest-bearing checking accounts) and savings accounts (including money market savings accounts). We originate small- to medium-size multifamily and single-family mortgage loans and secured consumer loans, primarily home equity and vehicle loans. More recently, we increased our efforts to purchase single family and multifamily loans. We also purchase mortgage-backed securities. We manage our cash and cash equivalents based upon our need for liquidity, and we seek to minimize the assets we hold as cash and cash equivalents by investing our excess liquidity in higher yielding assets such as mortgage loans or mortgage-backed securities.

Critical Accounting Policies

Our consolidated financial statements and the notes thereto, have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various factors and circumstances. We believe that our estimates and assumptions are reasonable under the circumstances. However, actual results may differ significantly from these estimates and assumptions that could have a material effect on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods.

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Our significant accounting policies and practices are described in greater detail in Note 1 to our June 30, 2008 audited consolidated financial statements and under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Selected Financial Data

The following tables set forth certain selected financial data concerning the periods indicated:

BofI HOLDING, INC.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(Dollars in thousands, except per share data)

	December 31, 2008	June 30, 2008	December 31, 2007
Selected Balance Sheet Data:			
Total assets	$ 1,220,451	$ 1,194,245	$ 1,040,184
Loans net of allowance for loan losses	641,475	631,413	517,345
Allowance for loan losses	3,374	2,710	1,502
Investment securities	512,459	510,014	440,219
Total deposits	632,493	570,704	600,168
Securities sold under agreements to repurchase	130,000	130,000	125,000
Advances from the FHLB	321,977	398,966	227,430
Fed Discount Window borrowings and junior subordinated debentures	50,155	5,155	5,155
Total stockholders equity	81,345	83,082	76,904

	At or For the Three Months Ended December 31,		At or For the Six Months Ended December 31,	
	2008	2007	2008	2007
Selected Income Statement Data:				
Interest and dividend income	$ 19,507	$ 14,971	$ 38,684	$ 28,593
Interest expense	10,738	11,541	22,103	22,201
Net interest income	8,769	3,430	16,581	6,392
Provision for loan losses	1,125	264	1,630	269
Net interest income after provision for loan losses	7,644	3,166	14,951	6,123
Non-interest income (loss)	14	333	(7,910)	781
Non-interest expense	3,008	2,410	5,485	4,560
Income before income tax expense	4,650	1,089	1,556	2,344
Income tax expense	1,889	438	612	946
Net income	$ 2,761	$ 651	$ 944	$ 1,398
Net income attributable to common stock	$ 2,588	$ 574	$ 600	$ 1,244
Per Share Data:				
Net income:				
Basic	$ 0.32	$ 0.07	$ 0.07	$ 0.15
Diluted	$ 0.32	$ 0.07	$ 0.07	$ 0.15
Book value per common share	$ 8.90	$ 8.67	$ 8.90	$ 8.67

Tangible book value per common share	$ 8.90	$ 8.67	$ 8.90	$ 8.67
Weighted average number of common shares outstanding:				
Basic	8,183,569	8,254,065	8,231,517	8,251,112
Diluted	8,206,084	8,374,380	8,296,711	8,374,469
Common shares outstanding at end of period	8,032,896	8,287,590	8,032,896	8,287,590
Common shares issued at end of period	8,637,373	8,607,090	8,637,373	8,607,090

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BofI HOLDING, INC.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(Dollars in thousands, except per share data)

	At or For the Three Months Ended December 31,		At or For the Six Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Performance Ratios and Other Data:				
Loan originations	$ 15,813	$ 14,428	$ 27,842	$ 49,730
Loan originations for sale	6,513		6,726	516
Loan purchases	34,276	29,673	49,625	30,602
Return on average assets	0.92%	0.25%	0.18%	0.28%
Return on average common stockholders equity	14.63%	3.24%	1.58%	3.57%
Interest rate spread[1]	2.74%	1.02%	2.58%	0.97%
Net interest margin[2]	2.98%	1.34%	2.83%	1.29%
Efficiency ratio[3]	34.2%	64.0%	63.3%	63.6%
Capital ratios:				
Equity to assets at end of period	6.67%	7.39%	6.67%	7.39%
Tier 1 leverage (core) capital to adjusted tangible assets[4]	6.86%	7.48%	6.86%	7.48%
Tier 1 risk-based capital ratio[4]	14.40%	15.39%	14.40%	15.39%
Total risk-based capital ratio[4]	14.98%	15.69%	14.98%	15.69%
Tangible capital to tangible assets[4]	6.86%	7.48%	6.86%	7.48%
Asset Quality Ratios:				
Net charge-offs to average loans outstanding	0.09%	0.04%	0.15%	0.04%
Nonperforming loans to total loans	0.61%	0.05%	0.61%	0.05%
Allowance for loan losses to total loans held for investment	0.52%	0.29%	0.52%	0.29%
Allowance for loan losses to nonperforming loans	84.37%	6.0X	84.37%	6.0X

1 Interest rate spread represents the difference between the annualized weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.

2 Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

3 Efficiency ratio represents noninterest expense as a percentage of the aggregate of net interest income and noninterest income. For the six months ended December 31, 2008, without the loss of $7.902 million in noninterest income due to the loss on sale of FNMA preferred stock, the efficiency ratio would have been 33.1%.

4 Reflects regulatory capital ratios of Bank of Internet USA only.

RESULTS OF OPERATIONS Comparison of Three Months and the Six Months Ended December 31, 2008 and 2007

For the three months ended December 31, 2008, we had net income of $2,761,000 compared to net income of $651,000 for the three months ended December 31, 2007. Net income attributable to common stock holders was $2,588,000 or $0.32 per diluted share compared to $574,000 or $0.07 per diluted share for the three months ended December 31, 2008 and 2007, respectively.

Other key comparisons between our operating results for the quarters ended December 31, 2008 and 2007 are:

Net interest income increased $5,339,000 in the 2008 quarter due to a 14.6% increase in average earning assets primarily from loan pool purchases and mortgage-backed securities. In addition, our net interest margin increased 164 basis points in the quarter ended in December 2008 compared to December 2007, as the earning rates on most loans and investment securities increased while the rates paid on time deposits and borrowings decreased.

The loan loss provision was $1,125,000 for the December 2008 quarter compared to $264,000 for the quarter ended December 2007. The increased loan loss provision was due primarily to the growth in our loan portfolio and general declines in housing values and increased charge-offs on RV loans.

Non-interest income decreased $319,000 for the December 2008 quarter compared to the quarter ended December 2007. During the December 2008 quarter, we recorded a fair value loss to our trading securities of $168,000. A gain of $220,000 was recorded on the sale of government agency mortgage backed-securities in the December 2007 quarter.

Professional fees increased $351,000 for the December 2008 quarter compared to the quarter ended December 2007, mainly due to fees associated with the re-securitization of non-agency mortgage backed securities, and loan pool purchases.

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For the six months ended December 31, 2008, we had net income of $944,000 compared to net income of $1,398,000 for the six months ended December 31, 2007. Net income attributable to common stock holders was $600,000, or $0.07 per diluted share compared to $1,244,000, or $0.15 per diluted share for the six months ended December 31, 2008 and 2007, respectively. Excluding the impact of a one-time loss on our investment in Fannie Mae preferred stock, we would have earned $5,654,000 for the six months ended December 31, 2008, up $4,256,000 or 304.4% compared to the six months ended December 2007. As a result of the U.S. Government s decision to place Fannie Mae in conservatorship and to suspend dividends to shareholders, our earnings were reduced by an after tax loss of $4,710,000 due to the sale of our investment in Fannie Mae preferred stock. On September 7, 2008, the U.S. Treasury, the Federal Reserve and the Federal Housing Finance Agency (FHFA) announced that the FHFA was putting Fannie Mae and Freddie Mac under conservatorship and giving management control to their regulator, the FHFA. The U.S. Treasury also announced that dividends on Fannie Mae and Freddie Mac common and preferred stock were eliminated. Based upon the government s decision, we sold our investment in Fannie Mae Preferred stock on September 8, 2008 at a pre-tax loss of $7,902,000.

Net Interest Income

Net interest income for the quarter ended December 31, 2008 totaled $8.8 million, a 158.8% increase compared to net interest income of $3.4 million for the quarter ended December 31, 2007. For the six months ended December 31, 2008, net interest income was $16.6 million, up $10.2 million or 159.4% compared to the $6.4 million for the six months ended December 31, 2007.

Total interest and dividend income during the quarter ended December 31, 2008 increased 30.0% to $19.5 million, compared to $15.0 million during the quarter ended December 31, 2007. For the six months ended December 31, 2008, total interest and dividend income increased 35.3% to $38.7 million, compared to $28.6 million for the six months ended in 2007. The increase in interest and dividend income for the quarter and the six months was attributable primarily to growth in average earning assets from purchases of investment securities and loans. The average balance of investment securities (primarily mortgage-backed securities) increased 11.4% and 21.2% when compared for the three-month and the six-month periods ended December 31, 2008 and 2007. The increase in interest income was also the result of our higher rates earned on new loans originated and purchased as well as higher rates on new non-agency mortgage-backed securities purchased. The loan portfolio yield for the quarter ended December 31, 2008 increased 46 basis points and the investment security portfolio yield increased 150 basis points. The net growth in average earning assets for the three-month and the six-month periods was funded largely by increased short-term borrowings. Total interest expense decreased 7.0% to $10.7 million for the quarter ended December 31, 2008 compared with $11.5 million for the quarter ended December 31, 2007. For the six months ended December 31, 2008, total interest expense was flat at $22.1 million, compared to $22.2 million for the six months ended in 2007. The interest expense for the six-month comparison was flat due to 18.7% growth in average balances, offset by a 78 basis point decrease in the average funding rate. Contributing to the decrease in the average funding rate were decreases in the average rates for time deposits of 40 basis points and decreases in the average rates of FHLB advances of 110 basis points when compared for the six-month periods ended December 31, 2008 and 2007. Net interest margin, defined as net interest income divided by average earning assets, increased by 164 basis points to 2.98% for the quarter ended December 31, 2008, compared with 1.34% for the quarter ended December 31, 2007.

The improvement in the net interest margin has resulted from specific actions we have taken to manage our assets and liabilities, as well as general changes in the U.S. Treasury yield curve and loan risk premiums. Our specific actions include selling our agency mortgage-backed securities and replacing them with higher yielding loans and non-agency mortgage backed securities. In addition, we have lowered our deposit offering rates in an effort to take advantage of lower borrowing rates tied to U.S. Treasury rates. Since December of 2007, the Federal Reserve has reduced the short-term Fed funds rate by 400 basis points, to a range of 0.00 to 0.25% as of December 31, 2008. The rate cuts have reduced and will likely continue to reduce both our cost of funding through lower short-term borrowing rates and interest income on floating rate loans and securities.

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Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin for the three months ended December 31, 2008 and 2007:

	For the Three Months Ended December 31, 2008			2007		
	Average Balance	Interest Income / Expense	Rates Earned / Paid [1]	Average Balance	Interest Income / Expense	Rates Earned / Paid [1]
	(Dollars in thousands)					
Assets						
Loans [2 3]	$ 636,694	$ 10,454	6.57%	$ 505,942	$ 7,727	6.11%
Federal funds sold	4,162	7	0.67%	42,728	477	4.47%
Interest-bearing deposits in other financial institutions	9,351	10	0.43%	10,057	125	4.97%
Investment securities [3 4]	506,705	9,113	7.19%	454,913	6,465	5.69%
Stock of FHLB, at cost [7]	18,905	(77)	-1.63%	12,685	177	5.58%
Total interest-earning assets	1,175,817	19,507	6.64%	1,026,325	14,971	5.84%
Non-interest earning assets	17,924			14,905		
Total assets	$ 1,193,741			$ 1,041,230		
Liabilities and Stockholders Equity						
Interest-bearing demand and savings	$ 144,692	$ 1,222	3.38%	$ 66,411	$ 603	3.63%
Time deposits	440,703	5,046	4.58%	539,241	6,943	5.15%
Securities sold under agreements to repurchase	130,000	1,435	4.42%	119,022	1,300	4.37%
Advances from FHLB	363,606	2,928	3.22%	228,932	2,594	4.53%
Other borrowings	23,438	107	1.83%	5,155	101	7.84%
Total interest-bearing liabilities	1,102,439	10,738	3.90%	958,761	11,541	4.82%
Noninterest-bearing demand deposits	4,224			1,008		
Other interest-free liabilities	6,491			5,439		
Stockholders equity	80,587			76,022		
Total liabilities and stockholders equity	$ 1,193,741			$ 1,041,230		
Net interest income		$ 8,769			$ 3,430	
Net interest spread [5]			2.74%			1.02%
Net interest margin [6]			2.98%			1.34%

1 Annualized

2 Loans include loans held for sale, loan premiums and unearned fees.

[3] Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loan fee income is not significant. The rate earned on loans does not include loan prepayment penalty income, which is classified as non-interest income.

[4] All investments are taxable.

[5] Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.

[6] Net interest margin represents net interest income annualized as a percentage of average interest-earning assets.

[7] The FHLBSF did not declare a dividend for the quarter ended December 31, 2008. A portion of the estimated dividend was accrued in the quarter ended September 30, 2008, which was subsequently reversed in the quarter December 31, 2008.

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Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin for the six months ended December 31, 2008 and 2007:

	For the Six Months Ended December 31, 2008			2007		
	Average Balance	Interest Income / Expense	Rates Earned / Paid [1]	Average Balance	Interest Income / Expense	Rates Earned / Paid [1]
	(Dollars in thousands)					
Assets						
Loans [2 3]	$ 631,254	$ 20,234	6.41%	$ 508,510	$ 15,221	5.99%
Federal funds sold	3,294	19	1.15%	35,657	843	4.73%
Interest-bearing deposits in other financial institutions	5,231	22	0.84%	11,006	284	5.16%
Investment securities [3 4]	511,236	18,215	7.13%	421,771	11,900	5.64%
Stock of FHLB, at cost	19,220	194	2.02%	12,638	345	5.46%
Total interest-earning assets	1,170,235	38,684	6.61%	989,582	28,593	5.78%
Non-interest earning assets	17,859			15,043		
Total assets	$ 1,188,094			$ 1,004,625		
Liabilities and Stockholders Equity						
Interest-bearing demand and savings	$ 139,055	$ 2,309	3.32%	$ 68,477	$ 1,246	3.64%
Time deposits	434,953	10,286	4.73%	516,243	13,250	5.13%
Securities sold under agreements to repurchase	130,000	2,851	4.39%	107,935	2,381	4.41%
Advances from FHLB	378,267	6,482	3.43%	226,202	5,118	4.53%
Other borrowings	14,297	175	2.45%	5,155	206	7.99%
Total interest-bearing liabilities	1,096,572	22,103	4.03%	924,012	22,201	4.81%
Noninterest-bearing demand deposits	4,114			1,017		
Other interest-free liabilities	6,720			4,850		
Stockholders equity	80,688			74,746		
Total liabilities and stockholders equity	$ 1,188,094			$ 1,004,625		
Net interest income		$ 16,581			$ 6,392	
Net interest spread [5]			2.58%			0.97%
Net interest margin [6]			2.83%			1.29%

1 Annualized

2 Loans include loans held for sale, loan premiums and unearned fees.

3

Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loan fee income is not significant. The rate earned on loans does not include loan prepayment penalty income, which is classified as non-interest income.

[4] All investments are taxable.

[5] Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.

[6] Net interest margin represents net interest income annualized as a percentage of average interest-earning assets.

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Analysis of Changes in Net Interest Income

Changes in net interest income are a function of changes in rates and volumes of both interest-earning assets and interest-bearing liabilities. The following table presents information regarding changes in interest income and interest expense for the periods indicated. The total change for each category of interest-earning asset and interest-bearing liability is segmented into the change attributable to changes in volume (changes in volume multiplied by prior rate), the change attributable to variations in interest rates (changes in rates multiplied by old volume) and the change attributable to changes in rate/volume (change in rate multiplied by the change in volume):

	For the Three Months Ended December 31, 2008 vs. 2007 Increase (decrease) due to				For the Six Months Ended December 31, 2008 vs. 2007 Increase (decrease) due to			
	Volume	Rate	Rate / Volume	Total net Increase (Decrease)	Volume	Rate	Rate / Volume	Total net Increase (Decrease)
		(In Thousands)				*(In Thousands)*		
Increase / (decrease) in interest income:								
Loans	$ 1,997	$ 582	$ 148	$ 2,727	$ 3,676	$ 1,070	$ 267	$ 5,013
Federal funds sold	(431)	(406)	367	(470)	(765)	(638)	579	(824)
Interest-bearing deposits in other financial institutions	(9)	(114)	8	(115)	(149)	(238)	125	(262)
Investment securities	737	1,706	205	2,648	2,523	3,133	659	6,315
Stock of Federal Home Loan Bank	87	(229)	(112)	(254)	180	(217)	(114)	(151)
	$ 2,381	$ 1,539	$ 616	$ 4,536	$ 5,465	$ 3,110	$ 1,516	$ 10,091
Increase / (decrease) in interest expense:								
Interest-bearing demand and savings	$ 710	$ (42)	$ (49)	$ 619	$ 1,285	$ (109)	$ (113)	$ 1,063
Time deposits	(1,269)	(768)	140	(1,897)	(2,085)	(1,033)	154	(2,964)
Securities sold under agreements to repurchase	120	15		135	487	(13)	(4)	470
Federal Home Loan Bank advances	1,525	(750)	(441)	334	3,444	(1,247)	(833)	1,364
Other borrowings	358	(77)	(275)	6	365	(143)	(253)	(31)
	$ 1,444	$ (1,622)	$ (625)	$ (803)	$ 3,496	$ (2,545)	$ (1,049)	$ (98)

Provision for Loan Losses

The loan loss provision was $1,125,000 for the quarter ended December 31, 2008, compared to $264,000 for the quarter ended December 31, 2007. For the six months ended December 31, 2008, loan loss provisions totaled $1,630,000 compared to $269,000 for the six months ended December 31, 2007. The increased provisions for the quarter and the six months ended December 31, 2008 were the result of loan growth, continued changes in portfolio mix and higher estimated losses from our recreational vehicle portfolio. Provisions for loan losses are charged to income to bring the allowance for loan losses to a level deemed appropriate by management based on the factors discussed under the Allowance for Loan Losses section of this report.

Non-interest Income

The following table sets forth information regarding our non-interest income for the periods shown:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2008	2007	2008	2007
	(in thousands)		*(in thousands)*	
Prepayment penalty fee income	$ 3	$ 45	$ 45	$ 185
Mortgage banking fee income	54		55	2
Gain (loss) on securities	(168)	206	(8,241)	426
Banking service fees and other income	125	82	231	168
Total non-interest income	$ 14	$ 333	$ (7,910)	$ 781

Non-interest income for the quarter ended December 31, 2008 decreased $319,000 to $14,000 compared to $333,000 for the quarter ended December 30, 2007. For the six months ended December 31, 2008, non-interest income decreased $8.7 million. The decrease in non-interest income for the six month period was primarily the result of selling $9.1 million in FNMA preferred stock resulting in a loss of $7.9 million and recording a fair value adjustment to our trading securities for a loss of $345,000.

Non-interest Expense

The following table sets forth information regarding our non-interest expense for the periods shown:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2008	2007	2008	2007
	(in thousands)		*(in thousands)*	
Salaries, benefits and stock-based compensation	$ 1,311	$ 1,358	$ 2,574	$ 2,379
Professional services	505	154	699	249
Occupancy and equipment	118	91	217	185
Data processing and internet	179	154	367	307
Advertising and promotional	159	174	252	475
Depreciation and amortization	41	30	82	55
FDIC and OTS regulatory fees	172	136	337	256
Other general and administrative	523	313	957	654
Total	$ 3,008	$ 2,410	$ 5,485	$ 4,560
Efficiency ratio[1]	34.2%	64.0%	63.3%	63.6%
Non-interest expense as annualized % of average assets	1.01%	0.93%	0.92%	0.91%

Non-interest expense, which is comprised primarily of compensation, data processing and internet expenses, occupancy and other operating expenses, was $3.0 million and $5.5 million for the three months and six months ended December 31, 2008, up from $2.4 million and $4.6 million for the three months and the six months ended December 31, 2007.

[1] Efficiency ratio represents noninterest expense as a percentage of the aggregate of net interest income and noninterest income. For the six months ended December 31, 2008, without the loss of $7.902 million in noninterest income due to the loss on sale of FNMA preferred stock, the efficiency ratio would have been 33.1%.

Total salaries, benefits and stock-based compensation decreased $47,000 to $1,311,000 for the quarter ended December 31, 2008 compared to $1,358,000 for the same quarter last year. Excluding the one time charges of $169,000 for the relocation and other fees in the quarter ended December 31, 2007, related to our new chief executive officer who assumed his position in October 2007, total compensation increased $122,000 for the quarter ended December 31, 2008, primarily related to staffing changes in the consumer lending business and a 3.6% average increase to salaries and wages. The Bank staff increased from 47 to 51 full-time equivalents between December 31, 2007 and 2008. For the six months ended December 31, 2008, compensation increased $195,000, which is primarily related to staff increases in the consumer lending business. Excluding the one-time fees associated with our new chief executive officer in 2007 the increase was $489,000 which is primarily related to having our chief executive officer on board for the full six months and staffing changes in the consumer lending business.

Professional services, which include accounting and legal fees, increased $351,000 for the quarter and $450,000 for the six-month comparison. The increase in professional services for the period ended December 2008 was primarily due to contract underwriters used in connection with loan pool purchases and legal and ratings fees due to the re-securitization of our non-agency mortgage backed securities.

Advertising and promotion expense decreased $15,000 and $223,000 for the comparison of the three-month and six-month periods ending December 31, 2008 and 2007. The decrease for the six month period was primarily due to a decrease in internet advertising and lead acquisitions for home equity loans of $293,000 offset by an increase of $90,000 for lead acquisitions for our first mortgage loan origination program.

The cost of our FDIC and OTS standard regulatory charges increased $36,000 and $81,000 when comparing the three-month and six-month periods ending December 31, 2008 and 2007. Other general and administrative expense increased $210,000 during the quarter and $303,000 for the six-month period ended December 31, 2008 compared to the same periods in 2007, primarily due to an increase in loan fees and REO losses.

Provision for Income Taxes

Our effective income tax rates (income tax provision divided by net income before income tax) for the three months ended December 31, 2008 and 2007 were 40.62% and 40.22%, respectively. Our effective income tax rates for the six months ended December 31, 2008 and 2007 were 39.33% and 40.36%, respectively.

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FINANCIAL CONDITION

Balance Sheet Analysis

Our total assets increased $26.3 million, or 2.2%, to $1,220.5 million, as of December 31, 2008, up from $1,194.2 million at June 30, 2008. The increase in total assets was primarily due to an increase in net loans of $10.0 million, an increase in loans held for sale of $2.9 million, an increase of $2.4 million in investment securities and an increase in other assets of $14.7 million. Total liabilities increased a total of $27.9 million, primarily due to an increase in deposits of $61.8 million and an increase in borrowings of $45.0 million from the Federal Reserve Discount Window, offset with a decrease of $77.0 million in borrowing from the Federal Home Loan Bank of San Francisco.

Loans

Net loans held for investment increased to $641.5 million at December 31, 2008 from $631.4 million at June 30, 2008. The increase in the loan portfolio was due to originations and loan pool purchases of $77.5 million off set by loan repayments of $61.5 million and transfers to foreclosed real estate of $4.7 million during the six months ended December 31, 2008.

The following table sets forth the composition of the loan portfolio as of the dates indicated:

	December 31, 2008		June 30, 2008	
	Amount	Percent	Amount	Percent
Residential real estate loans:				
Single family (one to four units)	$ 170,332	26.1%	$ 165,473	26.2%
Home equity	43,059	6.6%	41,977	6.6%
Multifamily (five units or more)	332,909	50.9%	330,778	52.2%
Commercial real estate and land	30,218	4.6%	33,731	5.3%
Consumer - recreational vehicle	55,246	8.5%	56,968	9.0%
Other	21,433	3.3%	4,439	0.7%
Total loans	653,197	100.0%	633,366	100.0%
Allowance for loan losses	(3,374)		(2,710)	
Unamortized premiums (discount), net of deferred loan fees	(8,348)		757	
Net loans	$ 641,475		$ 631,413	

The Bank originates and purchases mortgage loans with terms that may include repayments that are less than the repayments for fully amortizing loans, including interest only loans, option adjustable-rate mortgages, and other loan types that permit payments that may be smaller than interest accruals. Through December 31, 2008, the net amount of deferred interest on these loan types was not material to the financial position or operating results of the Company.

Asset Quality and Allowance for Loan Loss

Nonperforming Assets

Nonperforming loans are comprised of nonaccrual loans, loans past due 90 days or more and on nonaccrual and troubled debt restructured loans. Nonperforming assets include nonperforming loans plus other foreclosed real estate or assets owned, net. At December 31, 2008, our nonperforming loans totaled $3,999,000, or 0.61% of total gross loans and our total nonperforming assets totaled $8,023,000, or 0.66% of total assets.

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Nonperforming loans and foreclosed assets or nonperforming assets consisted of the following:

(Dollars in thousands)	December 31, 2008	September 30, 2008	June 30, 2008
Nonperforming assets:			
Nonaccrual loans:			
Loans secured by real estate:			
Single family	$ 232	$ 197	$ 1,793
Home equity loans		35	
Multifamily	3,306		
Commercial		2,369	2,358
Total nonaccrual loans secured by real estate	3,538	2,601	4,151
RV / Auto	460		
Other	1	6	
Total nonperforming loans	3,999	2,607	4,151
Foreclosed real estate	3,504	1,568	219
Repossessed vehicles	520	305	262
Total nonperforming assets	$ 8,023	$ 4,480	$ 4,632
Total nonperforming loans as a percentage of total loans	0.61%	0.42%	0.66%
Total nonperforming assets as a percentage of total assets	0.66%	0.38%	0.39%

Total nonperforming assets increased $3.4 million between December 31, 2008 and June 30, 2008. The majority of the increase is the result of two nonperforming multifamily loans totaling $3.3 million. The first loan has an unpaid balance of $2.2 million, is secured by 210 units in Cincinnati Ohio, has a current loan to value of 90% and no loss is expected if foreclosed. The second loan has an unpaid balance of $1.2 million and is secured by 20 units in the Miami area of Florida. The carrying value of the loan was reduced by a write-off of $150,000 this quarter equal to the expected loss if foreclosed. Also during the quarter, a commercial loan of $2.4 million (included in nonperforming loans at June 30, 2008) was transferred from loans to in-substance foreclosure. In February 2009, the Bank sold one of two commercial buildings associated with the $2.4 million loan and does not anticipate any loss to the Bank as a result of foreclosure. The increased amounts of nonperforming loans and foreclosed real estate reflect the nationwide downturn in residential housing values and a nationwide recession. If residential housing values continue to decline and consumer job losses increase, we are likely to experience continued growth in the level of nonperforming and foreclosed loans in future periods.

An analysis of impaired loans is as follows:

(Dollars in thousands)	December 31, 2008	September 30, 2008	June 30, 2008
Nonperforming loans	$ 3,999	$ 2,607	$ 4,151
Troubled debt restructuring			421
Other impaired loans			737
Total impaired loans	$ 3,999	$ 2,607	$ 5,309

At December 31, 2008, the carrying value of impaired loans is net of write-offs of $180,000 and there are no specific allowance allocations. The average carrying value of impaired loans was $3,303 and $192 for the quarters ended December 31, 2008 and 2007, respectively. The interest income recognized during the periods of impairment is insignificant for those loans impaired at December 31, 2008 or 2007. Loans past due 90 days or more which were still accruing were $2,095 at December 31, 2008 and $656 at June 30, 2008. Loans past due 90 days and still accruing are certain single family mortgages from which we both received advanced payments from the loan servicing company and we determined that such loans are not impaired based upon a current fair value analysis of the collateral.

The Bank has no loans which are considered a troubled debt restructuring at December 31, 2008. A troubled debt restructuring is a performing loan with permanent modifications of principal and interest payments or an extension of maturity dates. Under these arrangements, loan terms are typically reduced to no less than a required monthly interest payment. If the borrower is unable to return to scheduled principal and interest payments at the end of the modification period, foreclosure procedures will be initiated.

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Allowance for Loan Losses

We are committed to maintaining the allowance for loan losses at a level that is considered to be commensurate with estimated and known risks in the portfolio. Although the adequacy of the allowance is reviewed quarterly, our management performs an ongoing assessment of the risks inherent in the portfolio. While we believe that the allowance for loan losses is adequate at December 31, 2008, future additions to the allowance will be subject to continuing evaluation of estimated and known, as well as inherent, risks in the loan portfolio.

The assessment of the adequacy of our allowance for loan losses is based upon a number of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans, change in volume and mix of loans, collateral values and charge-off history.

We provide general loan loss reserves for our RV and auto loans based upon the borrower credit score at the time of origination and our loss experience to date. We provide general loan loss reserves for our mortgage loans based upon the size and type of the mortgage loan and the loan-to-value ratio. If we experience a large increase in charge-offs relative to the loan portfolio size, we may be required to increase our loan loss provisions in the future to provide a larger loss allowance.

The following table summarizes activity in the allowance for loan losses for the six months ended December 31, 2008:

	Single Family	Home Equity	Multi-family	Commercial Real Estate and Land	Recreational Vehicles and Autos	Other	Total
	(Dollars in thousands)						
Balance at July 1, 2008	$ 605	$ 186	$ 1,143	$ 205	$ 563	$ 8	$ 2,710
Provision for loan loss	284	158	248	(40)	964	16	1,630
Charge-offs	(89)	(19)	(150)		(708)		(966)
Recoveries							
Balance at December 31, 2008	$ 800	$ 325	$ 1,241	$ 165	$ 819	$ 24	$ 3,374

The following table reflects management s allocation of the allowance for loan losses by loan category and the ratio of each loan category to total loans as of the dates indicated:

	December 31, 2008		June 30, 2008	
	(Dollars in thousands)			
	Amount of Allowance	Allocation as a % of Allowance	Amount of Allowance	Allocation as a % of Allowance
Single family	$ 800	23.71%	$ 605	22.32%
Home equity	325	9.63%	186	6.86%
Multifamily	1,241	36.79%	1,143	42.19%
Commercial real estate and land	165	4.89%	205	7.56%
Consumer - Recreational vehicles	819	24.27%	563	20.77%
Other	24	0.71%	8	0.30%
Total	$ 3,374	100.00%	$ 2,710	100.00%

The loan loss provision was $1,630,000 and $269,000 for the six months ended December 31, 2008 and 2007, respectively. The increased loan loss provision was due primarily to general declines in housing values, growth in our loan portfolio and increased charge-offs on recreational vehicle loans.

Investment Securities

Total investment securities were $512.5 million as of December 31, 2008, compared with $510.0 million at June 30, 2008. During the six months ended December 31, 2008, we purchased $3.2 million of mortgage-backed securities available for sale, received principal repayments of approximately $17.6 million and sold $9.1 million of FNMA Preferred,. We also purchased $52.4 million of mortgage-backed securities held to maturity, had $5.0 million in callable bonds called and received principal repayments of approximately $22.8 million. We currently classify agency mortgage-backed and debt securities as held to maturity at the time of purchase based upon small issue size and based on issue features, such as callable terms. We also classify non-agency mortgage-backed securities and certain collateralized debt obligations as held to maturity, based upon issue factors such as monthly adjustable rates, current yields, and other terms that compare favorably to our loan portfolio. Until we increase our level of origination of consumer and mortgage loans, we are likely to continue to increase our investments in mortgage-backed securities.

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Deposits

Deposits increased a net $61.8 million, or 10.8%, to $632.5 million at December 31, 2008, from $570.7 million at June 30, 2008. Our deposit gain composition was a 35.9% increase in interest bearing demand and savings accounts combined with a 4.8% increase in time deposit accounts. Our increase in interest bearing demand and savings accounts was the result of increased promotion and competitive pricing during the first six months of the fiscal year.

The following table sets forth the composition of the deposit portfolio as of the dates indicated:

	December 31, 2008		June 30, 2008	
(Dollars in thousands)	**Amount**	**Rate***	**Amount**	**Rate***
Non-interest bearing	$ 3,535	0.00%	$ 5,509	
Interest bearing:				
Demand	85,262	3.24%	61,616	3.22%
Savings	74,874	3.05%	56,202	3.38%
Time deposits:				
Under $100,000	235,170	4.67%	268,747	4.84%
$100,000 or more	233,652	4.02%	178,630	4.91%
Total time deposits	468,822	4.35%	447,377	4.87%
Total interest bearing	628,958	4.04%	565,195	4.54%
Total deposits	$ 632,493	4.02%	$ 570,704	4.50%

* Based on weighted-average stated interest rates at end of period.

The following table sets forth the number of deposit accounts by type at the date indicated:

	December 31, 2008	June 30, 2008	December 31, 2007
Checking and savings accounts	9,690	9,415	8,317
Time deposits	13,090	15,490	15,955
Total number of deposit accounts	22,780	24,905	24,272

Securities Sold Under Agreements to Repurchase

Since November 2006, the Company has sold securities under various agreements to repurchase for total proceeds of $130.0 million. The repurchase agreements bear interest rates between 3.24% and 4.75% and scheduled maturities between January 2012 and December 2017. Under these agreements, the Company may be required to repay the $130.0 million and repurchase its securities before the scheduled maturity if the issuer requests repayment on scheduled quarterly call dates. The weighted-average remaining contractual maturity period is 5.85 years and the weighted average remaining period before such repurchase agreements could be called is .92 years.

FHLB Advances

We regularly use FHLB advances to manage our interest rate risk and, to a lesser extent, manage our liquidity position. Generally, FHLB advances with terms between three and ten years have been used to fund the purchase of single family and multifamily mortgages and to provide us with interest rate risk protection should rates rise. At December 31, 2008, a total of $62.0 million of FHLB advances include agreements that allow the FHLB, at its option, to put the advances back to us after specified dates. The weighted-average remaining contractual maturity period of the $62.0 million in advances is 2.49 years and the weighted average remaining period before such advances could be put to us is .85 years.

Federal Reserve Discount Window Borrowings

On October 24, 2008, we borrowed $45.0 million for three months from the Federal Reserve Discount Window. The Bank has elected from time-to-time to borrow from the Federal Reserve rather than the Federal Home Loan Bank of San Francisco to maintain an immediate secondary source of liquidity.

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Stockholders Equity

Stockholders equity decreased $1.8 million to $81.3 million at December 31, 2008 compared to $83.1 million at June 30, 2008. The decrease was primarily the result of a $2.1 million cumulative effect adjustment for our election to adopt Financial Accounting Standard No. 159 for investments in trust preferred collateralized debt.

LIQUIDITY

During the six months ended December 31, 2008, we had net cash outflows from operating activities of $8.8 million compared to inflows of $2.7 million for the six months ended December 31, 2007. Net operating cash outflows for the period ended in 2008 were primarily due to the add-back of non-cash adjustments of accretion of loan and security premiums and the origination of loans held for sale.

Net cash outflows from investing activities totaled $22.2 million for the six months ended December 31, 2008 and totaled $84.8 million for the same period in 2007. Net cash outflows decreased $62.6 million for the six months ended December 31, 2008, as fewer investment securities were purchased in the period versus the same period in the prior year.

Our net cash provided by financing activities totaled $29.6 million for the six months ended December 31, 2008 and $87.3 million for the six months ended December 31, 2007. Net cash provided by financing activities decreased $57.7 million for the six months ended December 31, 2008 compared to December 31, 2007, primarily due to repayments on FHLB advances of $107.0 million, offset by $45 million in proceeds from Fed Discount Window borrowing. During the quarter, the Bank could borrow up to 40.0% of its total assets from the FHLB. Borrowings are collateralized by the pledge of certain mortgage loans and investment securities to the FHLB. We increased our borrowing capacity with the FHLB to 40.0% of total assets in October 2007. Based on the loans and securities pledged at December 31, 2008 we had total borrowing capacity of $468.2 million, of which $322.0 million was outstanding and $146.2 million was available. At December 31, 2008, we also had a $10.0 million unsecured federal funds purchase line with a bank under which no borrowings were outstanding.

During the three months ended December 31, 2008, we expanded our borrowing capabilities with the Federal Reserve by adding borrowing capacity of $298.0 million, of which $45.0 million was outstanding and $253.0 million was available at December 31, 2008. Also to expand our Bank s liquidity options, we began issuing brokered deposits. Total brokered deposits were $71.5 million at December 31, 2008. We believe our liquidity sources to be stable and adequate for our anticipated needs and contingencies. We can increase our level of deposits and borrowings to address our future liquidity needs.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

At December 31, 2008, we had commitments to originate or purchase loans and investment securities of $14.3 million, and $11.0 million in commitments to sell loans. Time deposits due within one year of December 31, 2008 totaled $283.8 million. We believe the large percentage of time deposits that mature within one year reflects customers hesitancy to invest their funds long term. If these maturing deposits do not remain with us, we may be required to seek other sources of funds, including other time deposits and borrowings. Depending on market conditions, we may be required to pay higher rates on deposits and borrowings than we currently pay on time deposits maturing within one year. We believe, however, based on past experience, a significant portion of our time deposits will remain with us. We believe we have the ability to attract and retain deposits by adjusting interest rates offered.

The following table presents certain of our contractual obligations as of December 31, 2008:

	Payments Due by Period[1]				
	Total	Less Than One Year	One To Three Years	Three To Five Years	More Than Five Years
			(in thousands)		
Long-term debt obligations [2]	$ 1,023,341	$ 468,132	$ 221,834	$ 182,512	$ 150,863
Operating lease obligations [3]	1,225	329	688	208	
Total	$ 1,024,566	$ 468,461	$ 222,522	$ 182,720	$ 150,863

[1] Our contractual obligations include long-term debt, time deposits and operating leases as shown. We had no capitalized leases or material commitments for capital expenditures at December 31, 2008.

[2] Amounts include principal and interest due to recipient.

[3] Payments are for a lease of real property.

CAPITAL RESOURCES AND REQUIREMENTS

Bank of Internet USA is subject to various regulatory capital requirements set by the federal banking agencies. Failure by our Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by regulators that could have a material adverse effect on our consolidated financial statements. Under capital adequacy guidelines and the regulatory

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framework for prompt corrective action, our Bank must meet specific capital guidelines that involve quantitative measures of our Bank s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our Bank s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation require our Bank to maintain certain minimum capital amounts and ratios. Regulations of the Office of Thrift Supervision requires our Bank to maintain minimum ratios of tangible capital to tangible assets of 1.5%, core capital to tangible assets of 4.0% and total risk-based capital to risk-weighted assets of 8.0%. At December 31, 2008, our Bank met all the capital adequacy requirements to which it was subject. At December 31, 2008, our Bank was well capitalized under the regulatory framework for prompt corrective action. To be well capitalized, our Bank must maintain minimum leverage, tier 1 risk-based and total risk-based capital ratios of at least 5.0%, 6.0% and 10.0%, respectively. No conditions or events have occurred since that date that management believes would materially adversely change the Bank s capital classification. From time to time, we may need to raise additional capital to support our Bank s further growth and to maintain its well capitalized status.

The Bank s capital amounts, capital ratios and capital requirements at December 31, 2008 were as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Tier 1 leverage (core) capital to adjusted tangible assets	$ 83,630	6.86%	$ 48,741	4.00%	$ 60,927	5.00%
Tier 1 capital (to risk weighted assets)	$ 83,630	14.40%	N/A	N/A	$ 34,840	6.00%
Total capital (to risk-weighted assets)	$ 87,004	14.98%	46,453	8.00%	$ 58,067	10.00%
Tangible capital (to tangible assets)	$ 83,630	6.86%	18,278	1.50%	N/A	N/A

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We measure interest rate sensitivity as the difference between amounts of interest-earning assets and interest-bearing liabilities that mature or contractually re-price within a given period of time. The difference, or the interest rate sensitivity gap, provides an indication of the extent to which an institution s interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities and negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. In a rising interest rate environment, an institution with a positive gap would be in a better position than an institution with a negative gap to invest in higher yielding assets or to have its asset yields adjusted upward, which would result in the yield on its assets to increase at a faster pace than the cost of its interest-bearing liabilities. During a period of falling interest rates, however, an institution with a positive gap would tend to have its assets mature at a faster rate than one with a negative gap, which would tend to reduce the growth in its net interest income. The following table sets forth the interest rate sensitivity of our assets and liabilities at December 31, 2008:

	Term to Repricing, Repayment, or Maturity at December 31, 2008			
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
		(Dollars in thousands)		
Interest-earning assets:				
Cash and cash equivalents	$ 14,777	$	$	$ 14,777
Interest-bearing deposits in other financial institutions	99			99
Investment securities [1]	359,374	144,789	8,296	512,459

Stock of the FHLB, at cost	18,848			18,848
Loans net of allowance for loan loss [2]	183,451	190,115	267,909	641,475
Loans held for sale	2,917			2,917
Total interest-earning assets	579,466	334,904	276,205	1,190,575
Non-interest earning assets				29,876
Total assets	$ 579,466	$ 334,904	$ 276,205	$ 1,220,451
Interest-bearing liabilities:				
Interest-bearing deposits [3]	$ 443,888	$ 185,070	$	$ 628,958
Securities sold under agreements to repurchase [4]		35,000	95,000	130,000
Advances from the FHLB [4]	155,000	131,977	35,000	321,977
Other borrowed funds	50,155			50,155
Total interest-bearing liabilities	649,043	352,047	130,000	1,131,090
Other noninterest-bearing liabilities				8,016
Stockholders equity				81,345
Total liabilities and equity	$ 649,043	$ 352,047	$ 130,000	$ 1,220,451
Net interest rate sensitivity gap	$ (69,577)	$ (17,143)	$ 146,205	$ 59,485
Cumulative gap	$ (69,577)	$ (86,720)	$ 59,485	$ 59,485
Net interest rate sensitivity gap - as a % of interest earning assets	(12.01)%	(5.12)%	52.93%	5.00%
Cumulative gap - as % of cumulative interest earning assets	(12.01)%	(9.48)%	5.00%	5.00%

[1] Comprised of U.S. government securities and mortgage-backed securities, which are classified as held to maturity, available for sale and trading. The table reflects contractual re-pricing dates and does not estimate prepayments or calls.

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2 The table reflects either contractual re-pricing dates or maturities.

3 The table assumes that the principal balances for demand deposit and savings accounts will re-price in the first year.

4 The table reflects either contractual re-pricing dates or maturities and does not estimate prepayments or puts.

Although gap analysis is a useful measurement device available to management in determining the existence of interest rate exposure, its static focus as of a particular date makes it necessary to utilize other techniques in measuring exposure to changes in interest rates. For example, gap analysis is limited in its ability to predict trends in future earnings and makes no assumptions about changes in prepayment tendencies, deposit or loan maturity preferences or repricing time lags that may occur in response to a change in the interest rate environment.

We attempt to measure the effect market interest rate changes will have on the net present value of assets and liabilities, which is defined as market value of equity. We analyze the market value of equity sensitivity to an immediate parallel and sustained shift in interest rates derived from the current treasury and LIBOR yield curves. For rising interest rate scenarios, the base market interest rate forecast was increased by 100, 200 and 300 basis points. For the falling interest rate scenarios, we used a 100 basis points decrease due to limitations inherent in the current rate environment. The following table indicates the sensitivity of market value of equity to the interest rate movement described above at December 31, 2008:

	Sensitivity	Percentage Change from Base	Net Present Value as Percentage of Assets
	(Dollars in thousands)		
Up 300 basis points	$ 8,388	10%	7.37%
Up 200 basis points	$ 6,284	8%	7.10%
Up 100 basis points	$ (733)	0%	6.46%
Base			6.40%
Down 100 basis points	$ 7,461	9%	6.82%

The computation of the prospective effects of hypothetical interest rate changes is based on numerous assumptions, including relative levels of interest rates, asset prepayments, runoffs in deposits and changes in repricing levels of deposits to general market rates, and should not be relied upon as indicative of actual results. Furthermore, these computations do not take into account any actions that we may undertake in response to future changes in interest rates.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISKS

For quantitative and qualitative disclosures regarding market risks in our portfolio, see, Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk.

ITEM 4: CONTROLS AND PROCEDURES

The Company s management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission s rules and forms.

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There were no changes in the Company s internal control over financial reporting identified in connection with the evaluation referred to above that occurred during the quarter that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

The Company s size dictates that it conduct business with a minimal number of financial and administrative employees, which inherently results in a lack of documented controls and segregation of duties within the Company. Management will continue to evaluate the employees involved and the controls procedures in place, the risks associated with such lack of segregation and whether the potential benefits of adding employees to clearly segregate duties justifies the expense associated with such added personnel. In addition, management is aware that many of the internal controls that are in place at the Company are undocumented controls.

The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not involved in any material legal proceedings. From time to time we are a party to a claim or litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. In the opinion of our management, the resolution of any such issues would not have a material adverse impact on our financial position, results of operations, or liquidity.

ITEM 1A. RISK FACTORS

We face a variety of risks that are inherent in our business and our industry. The following are some of the more significant factors that could affect our business and our results of operations:

We are subject to rapidly changing government laws and regulations, which could adversely affect our operations. The prevailing recession currently impacting the U.S. and worldwide economies is negatively impacting the banking and financial sector generally, and has and may in the future, lead to the adoption of legislation or regulation that could negatively impact our operations or our competitive position.

Our results of operations could vary as a result of the methods, estimates, and judgments that we use in applying our accounting policies.

We may elect to seek additional capital but it may not be available when it is needed and limit our ability to execute our strategic plan.

Changes in interest rates could adversely affect our income.

Many of our mortgage and consumer loans, particularly recreational vehicle loans and home equity loans are generally unseasoned, and defaults on such loans would harm our business.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings, capital adequacy and overall financial condition may suffer materially.

Declining real estate values, particularly in California, could reduce the value of our loan portfolio and impair our profitability and financial condition.

We purchase and originate loans in bulk or pools. We may experience lower yields or losses on loans because the assumptions we use may not always prove correct.

We invest in mortgage-backed securities and other securities issued by entities, which may be downgraded by large credit rating agencies decreasing the value of our securities.

Our success depends in large part on the continuing efforts of a few individuals. If we are unable to retain these personnel or attract, hire and retain others to oversee and manage our company, our business could suffer.

We depend on third-party service providers for our core banking technology, and interruptions in or terminations of their services could materially impair the quality of our services.

We are exposed to risk of environmental liability with respect to properties to which we take title.

We have risks of systems failure and security risks, including hacking and identity theft.

These risks are described in more detail under Risk Factors in Item 1A of our Form 10-K for the year ended June 30, 2008. We encourage you to read these risk factors in their entirety. Other factors may also exist that we cannot anticipate or that we currently do not consider being significant based on information that is currently available.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding the Company s common stock repurchase plans. Purchases made relate to the stock repurchase plan of 414,991 shares that was originally approved by the Company s Board of Directors on July 5, 2005 plus an additional 500,000 shares approved on November 20, 2008. Stock repurchased under this plan will be held as Treasury shares.

	Total number of shares purchased	Average price paid per share	Maximum number of shares that may yet be purchased Under the Plans or Programs
Shares purchased as part of publicly announced plans or programs			
June 30, 2008	319,500	$ 7.60	95,491
Quarter ended September 30, 2008			95,491
October 1, 2008 to October 31, 2008	5,000	4.76	90,491
November 1, 2008 to November 30, 2008	80,200	3.92	510,291
December 1, 2008 to December 31, 2008	191,000	3.36	319,291
Total number of shares purchased as part of publicly announced plans or programs	595,700	$ 5.72	319,291
Shares purchased as part of a net-settlement of employees restricted stock units			
June 30, 2008	8,777	7,39	N/A
Quarter ended September 30, 2008			N/A
Quarter ended December 31, 2008			N/A
Total net-settlement shares purchased	8,777	7,.39	N/A
Total treasury shares	604,477	$ 5.74	N/A

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) On October 21, 2008, the Company held its Annual Meeting of Shareholders.

(b) Shareholders voted on the following matters:

(i) The election of Theodore C. Allrich as director for a term to expire in 2011:

Votes:	For	Against	Withheld
	6,306,622	N/A	232,744

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(ii) The election of John Gary Burke as director for a term to expire in 2011:

Votes:	For	Against	Withheld
	6,308,222	N/A	231,144

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Document
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BofI Holding, Inc.

Dated: February 4, 2009

By: /s/ Gregory Garrabrants
Gregory Garrabrants
Chief Executive Officer
(Principal Executive Officer)